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Change and Continuity in Canada-U.S. Economic Relations

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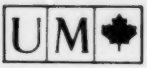

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CHANGE AND CONTINUITY

IN CANADA-U.S. ECONOMIC RELATIONS

WILLIAM DIEBOLD

"I don't know much about the future." That is what I said some 25 years ago when I was asked to review a book that looked ahead a century or so. Then I realized that no one else did either and I wrote the review. This essay is more modest; its aim is simply an effort to think ahead on a single, but large enough, subject. There are no prophecies here except those implicit in deciding what is worth talking about. A personal essay on so broad a subject is permitted to be exploratory, incomplete, selective, somewhat free-ranging and uncertain about conclusions. Paths will be discovered but not followed. Possibilities will outnumber conclusions. Opinions, however, cannot be avoided and for reasons of space they will usually appear without supporting detail. The facts that are set out are the facts I see, tinted as they may be by my rather lengthy exposure to the subject. Not everyone will take the same view of any of these issues, but in this kind of work it is better to stir things up than to try to settle all the issues.

It will be obvious that the paper draws on the work of

many scholars over a long period, but there will be shamefully few acknowledgments. My only excuse is that this is an essay, not a study and I have exceeded the space allotted me. What may be less detectable is my immense debt to the many people, especially but not only Canadians, who, for more than 50 years, have talked with me, sometimes over and over, about the subjects touched in this paper.

My focus is the long run but it is difficult to say just how long. The most important issues we shall be dealing with are inherent in the Canadian-American relationship and may arise at any time. It is even difficult to settle on a date when the distant future could be said to begin, so to speak. Obviously many of the key economic issues between the two countries in the foreseeable future will concern the agreement creating a free trade area (hereafter called FTA). But a proper analysis of that set of subjects would take all our space— and probably more. In any case, other people are already well launched on the examination of the ways the FTA may develop.[1] "After the FTA what?" sounds like a reasonable title but would be misleading because "what" depends not only on when we consider the FTA to be completed but how that point has been arrived at. Thus we cannot get a usable grip on either horn of the dilemma of ignoring the FTA or analyzing it. To go between them hardly seems possible. The FTA has to be examined; it cannot be adequately examined. Unless we end the essay here there is nothing for it but a compromise, the first of many.

Consequently, the next section of this essay deals with some features of the FTA and how the uncertainties about it might be ended. Then we turn to economic issues not covered by the FTA but that are likely to be affected by how it develops. With the resulting agenda before us, it will be time to ask in what ways future relations between the two countries may be different from those of the past and what circumstances are unlikely to change. The effort to strike a balance between

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continuity and the kinds of change that may take place will raise the question whether some new ways of thinking about familiar issues may be called for. If so— or possibly even if not— would it make sense for Canadians and Americans (whether through their governments or otherwise) to try to find new ways of dealing with at least some of their common needs and mutual relations?

There is a limit to how many facts can be made use of in a study of the future. Hypotheses, imagination, and limited and incomplete glimpses of several sides of an issue can often be more realistic than efforts to be concrete when data are inadequate. As careful a reasoner as Aristotle warned us not to draw more exact conclusions than the material allows. It is, nevertheless, quite possible to conduct one's inquiry in an orderly way provided one also realizes that realism requires some attention to what are often called "non-economic factors." It is obvious that the economic relations between the United States and Canada have ramifications that reach not only into national foreign policies but into almost all the other aspects of life in both countries as well. It is no accident that one of the clearest and most unequivocal passages in the free trade agreement says that it does not apply to "cultural industries." In contrast, the agreement says nothing about "sovereignty" but some of the gravest concerns of serious people in Canada are whether some of the "economic" provisions of the FTA will keep Canadians from governing their country as they like.

THE FREE TRADE AGREEMENT AND ITS RESULTS

Provisions

Although rigorous lines of reasoning that lead logically to neat conclusions will not play much of a part in this essay, we can at least start with a few clear statements about the FTA. It will not create free trade between Canada and the United States. It frees more than trade. Although the agreement has been signed, sealed and delivered, it is not complete. The two governments will almost certainly fill in some of the blanks but may not fill in others. Even when provisions are specific, detailed, and complex, it is not always clear what has to be done to put them into effect. Although the agreement is the most comprehensive and elaborate the two countries have ever made, it might not turn out to be the main factor shaping their future economic relations.

These statements are not meant to suggest that the FTA is a fraud or a collection of ambiguities. They do not reflect unqualified skepticism as to the future willingness of Canadians and Americans to live up to the commitments they made in 1989— although that risk is inescapable. The

statements are not just another way of saying that some parts of almost any agreement may turn out to be dead letters or may be interpreted differently from the way its authors expected. There is no question that the negotiation and signing of the agreement is an important event from which one should expect significant consequences. But realism calls for balanced, complex assessments, not simple, sweeping statements. What has been created is a free trade area, not free trade, and a free trade area is an artifact that is defined by the agreement establishing it and the way governments carry out that agreement.

This agreement, when it is fully in effect, will make almost all trade between the two countries tariff-free and will remove or reduce most other trade barriers. However, some trade barriers will still exist and the two governments will be free to impose others. The agreement does not deal exclusively with trade in goods; it removes some restrictions on investment, the provision of services (including banking and communications) and other kinds of business behavior. In all fields more than simple liberalization is called for; exceptions are made for many existing practices; some issues are dealt with primarily by laying down rules about future conduct. It is best to think of the FTA as regulating— more or less— a wide range of economic relations between the two countries, not just abolishing barriers. As in almost any complex agreement there are passages in the FTA whose meaning is already not clear; others will be discovered later.

Two sets of provisions of fundamental importance to the agreement remain open. One is the set of complex and innovative procedures for the settlement of disputes. How these work, and how far the governments let them influence their behavior, will do much to determine the scope and effect of the FTA, and, indeed, its real character. They might also reach far into other fields, as we shall see.

The second major piece of unfinished business— specifically recognized as such in the agreement— concerns the use of subsidies (and dumping) and the measures each government may take to offset such practices by the other. Should the seven years allowed for the working out of new rules produce unsatisfactory results— or none at all— both countries will lose. Canada will not have achieved one of its main objectives in seeking a free trade area, secure access to the American market; its exports to the United States will benefit from free trade only when they conform to American laws or are lucky enough not to attract the resistance of American producers of competitive goods. The United States will also suffer a commercial loss (though probably a less important one) because Canada will remain free to use subsidies to reserve parts of its domestic market for domestic producers. Far more impor-

tant, in my judgment, the United States will have lost a chance to make its "fair trade" laws more rational, more truly effective and less likely to cause continuing trouble with a large number of foreign countries.[2] Faced with this kind of failure, either one of the governments might decide to invoke the provision permitting it to denounce the agreement on six months' notice— or at least ask for major alterations.

In short, the FTA is a beginning as well as an end. It makes some definite changes but also opens new possibilities whose outcome is not at all clear. Only time will reveal whether the provisions of the agreement will be firmly and strictly interpreted or whether one or both governments will let domestic pressures override the international commitment. There are bound to be questionable actions; circumstances will be called exceptional to justify departures from the rules. What the FTA means depends on what the governments do in the future and not just on what they have already done.

What is more, it is not simply the governments in Ottawa and Washington that will give the agreement its meaning. In both countries there is a pluralism of power. Legal authority is divided along federal lines, cities have a degree of autonomy and economic influence, there are more or less independent federal agencies to be reckoned with, and in the United States, at least— and sometimes in Canada— the divisions between the legislative and the executive branches can be crucial. Courts may upset administrative findings or political decisions. In addition there is private business; how individual companies act in response to the new conditions will not only be decisive substantively as to what is produced in each country and how it is traded, but will often create or remove obstacles to the freeing of trade, improve or impair its results and sometimes shape the questions of policy and administration that the governments have to deal with. Business is also likely to set the pace of adaptation to the new circumstances (which may well be different for different kinds of activities or sectors of each economy).

Of course, this whole process might not be allowed to play itself out. The Canadian government that negotiated the FTA was subsequently returned to office with only minority support after an election in which the FTA was a major issue. The leaders of the other two parties said they would tear up the agreement if they came into power. As time passes the government is bound to change hands. Who can say if the idea of a unilateral denunciation of the FTA would still have any appeal? Some observers believe that processes are already in motion, especially in business, that will be irreversible; optimists about the effects of the FTA think opposition will fade. Leaders change and the balance of opinion may shift in each party (which were not unanimous in the first

place); there has already been some backing away from the earlier statements. Perhaps the FTA will come to be taken for granted, but it is just as easy to see how new issues, or the revival of old ones, may again excite opposition.

On the American side there is nothing like the same division of opinion and it is hard to imagine a major domestic political dispute that hinged on the FTA. It is, however, not hard to imagine a series of American actions that violated or disregarded the FTA in response to political pressures and so nullified significant parts of it and made the whole agreement unacceptable to a majority of Canadians. That risk would be increased if too many Americans failed to appreciate the importance of their relations with Canada— as they often have in the past.

The effect of any of these rather negative possibilities on the long-run future of Canadian-American economic relations would depend not only on what happened but how. Some changes might be welcome to both countries. One government might agree to help the other save political face. But there could also be new strains in the relationship (which might come from quite other issues than the FTA). No matter what happened to the FTA there would be a continuing need to deal with a large number of connections that no one was prepared to cut. If both sides lost interest in the FTA because it produced nothing but troublesome results, people in business might still find it easier and cheaper to live by the changed rules, and most of them would almost certainly not want to undo the results of altered investments and trade. Annoyance and frustration can produce very unconstructive behavior, but might stimulate some useful fresh thinking.

Instead of ruminating further on these possibilities, let us take as a working hypothesis for most of the discussion that follows the view that the two governments will continue to carry out the FTA they have agreed to in more or less the same spirit in which they reached agreement. Even so it will not be until some time in the future that we know whether the FTA marks a fundamental change in the political economy of North America.

The results

"Success" and "failure" are not the best words to characterize the future of an agreement that has as much unfinished business and as many untested arrangements as the FTA. In the continuing negotiations it will require at various levels of government there will surely be some rough passages, and perhaps many. The agreement will bring a good bit of liberalization, but sometimes efforts to remove barriers or distortion

will be blocked. In either case some people will applaud and others will object according to whether they prefer change or not— or, rather, how they feel about the specific changes in question. Credit and blame will be attributed to the FTA for results it did not bring about. There will be a psychological impact, but will it encourage the view that "having gone this far we may as well go the whole hog", as some people in both countries already say? Or will it strengthen the view in Canada that because there is greater exposure to the United States on a wide range of issues, one should tighten up and hold the line on others by measures of a more nationalistic tone, or that at least lean against the pull from the United States? Some managers of businesses will respond to the FTA by dynamic competition and by seizing new opportunities, while others who feel threatened will look for shelter; some politicians will be ready to give it to them. It is not venturing very far out on a limb to say that we should expect mixed economic results and diverse political behavior as well.

There is no point in reviewing here the estimates that have been made of the effect the FTA's removal of barriers will have on the volume of trade and investment between the two countries. These calculations are based on concrete assumptions about some matters which, this essay argues, must realistically be treated as uncertain. Here we shall have to be content with suggestion rather than measurement, with emphasis on the type of change to be expected rather than the amount.

The expansion of trade and investment should not be taken, in itself, as a major objective of the FTA or the criterion of its success. The basic potential gains lie in the FTA's contribution to the productivity of the economies of the two countries (plus considerations of equity and non-economic objectives). The developments to be looked for lie in not only the volume but the composition of trade and investment. Therefore, "structural change" is convenient shorthand for one of the principal indicators of the significance and impact of the FTA. There is no agreed definition as to what is "structural" and I shall use the term broadly to cover not only changes in what is produced and where, or the closing and opening of factories, but also modernization, adoption of new technology, methods, and ways of work, alterations in the organization of firms or industries and other changes that are made to cope with the new conditions of production. Like so many other things connected with the FTA, structural change will be of greater importance for Canada than for the United States simply because of the difference in size of the two economies.

That relatively free trade with the United States would contribute to beneficial changes in the structure of the Canadian economy was

the main conclusion most people drew from a very extensive study of "Canada in the Atlantic Economy" conducted by the Private Planning Association of Canada in the 1960s.[3] To obtain such benefits was one of the main reasons the Macdonald Commission endorsed the idea of a free trade area in the 1980s.[4] Business groups that stressed the value of improved access to a larger market and labor organizations who feared unemployment were both talking about structural changes the FTA might bring to the Canadian economy. So were opponents of free trade who believed it would prevent the growth of advanced manufacturing, forbid subsidies that were essential to insure activity in poorer parts of Canada, and lead to more American takeovers that would subordinate the future of Canadian industry to the requirements of American companies. The Americans who believed that they could expand sales in Canada once their competitors were deprived of tariffs, subsidies or discriminatory government purchases and the others who were ready to invest in Canada once they were sure their plants there would have secure access to the American market were also talking about structural change.

Structural change goes on continuously in response not only to foreign competition but to purely domestic changes in income, taste, taxes and other legislation, and to developments at home and abroad in technology, prices, industrial organization and changes in the ownership and control of businesses. Some people lose, others gain, and the net benefits to the national economy may not always be apparent in the short run. While some specific changes may be clearly traceable to the FTA, it is more likely that it will usually be hard to distinguish the cause of each effect. Often the FTA will provide a push that accelerates a change that is already under way. For example, Guy Stanley considers that before the FTA was negotiated "the branch plant was already an endangered species" as global competition reshaped the structure of Canadian business.[5]

Concern with the dislocation that structural change can bring has generated a good bit of interest in policies of adjustment assistance. One school of thought holds that the best adjustment comes through the play of market forces and reliance on the existing safety net of social security to help people who are displaced. Others favor special measures of assistance, perhaps to firms undertaking adaptation and certainly to people who lose their jobs and sometimes to hard-hit communities as well. Although experience has been mixed, there is a strong political and social case for trying to help those who bear the brunt of structural change at the expense of the rest of the economy.

In practice structural change is often not very disruptive. That was true when the common market was created in Western Europe and

when the United States and Canada removed tariffs on automobiles in the 1960s. Much depends on whether economies are expanding, contracting or stagnant and on how businesses deal with the changes. The fact that a good deal of Canadian-American trade takes place within individual enterprises gives managers an opportunity to help smooth adjustment. There is also an upper limit to the potential dislocation set by the fact that the FTA's effects will be selective since so much bilateral trade is already free from most barriers. Still, as a precaution, it makes good sense to be ready to provide adjustment assistance if it is needed.

As this cursory summary suggests, structural change is a crucial, complex subject but for this essay it is enough to underline three simple points.

First, unless both countries undergo some structural adjustment— in the broad sense in which the term is being used here— they will have few, if any, benefits from the FTA. Thus, their policies should be directed to facilitating adjustment and not making it more difficult, as many past policies have done, including some that supposedly favored adjustment.

The second point is that the process of making adjustments is likely to generate disputes between the two countries. Historically, efforts to cope with structural adjustment have often included some restraint on imports, supposedly for a period during which economic adjustments were being made at a politically and socially acceptable pace— or even, it could sometimes be claimed, in an economically efficient way. GATT provides for this possibility but in practice the methods of international surveillance that would be required to insure that the temporary protection did not become permanent and that adjustment in fact took place have never been properly developed. The FTA has a provision that exempts a certain amount of bilateral trade from safeguard restrictions but continues to rely on time limits alone to insure that adjustment will take place— and that has not worked well under the GATT rule. If the consultation and dispute settlement provisions of the FTA work well they might open the way to establishing firmer links between adjustment and temporary but reasonable safeguards. Similarly, either the disputes settlement procedure or some of the consultative or supervisory machinery of the FTA could be used to insure that subsidies intended to help adjustment did not result in what the other country judged to be unfair competition.

The third point about structural change is that it will generate clashes of interest within each country. These could be serious enough to undermine the FTA if the resulting domestic pressure kept one of the governments from meeting its obligations and the other retaliated. Or

the two countries might compromise in ways that avoided friction by avoiding change. To stave off domestic trouble, one of the governments might in one way or another nullify the benefits the other had the right to expect from the FTA.

What these three simple points add up to is that either the FTA will provoke or permit a good bit of structural change or it will fail to bring major benefits to the two countries, and especially Canada. The changes might come smoothly but there is a good chance that they will stir up some discontent. The issues that arise between the two countries will be thoroughly entwined with domestic difficulties, whatever their origin. Thus, simply by working itself out, the FTA will influence the conditions in which other relations between the two countries develop and very likely the attitudes with which they are approached as well.

THE REST OF THE AGENDA

What influence the FTA will have on other economic relations between Canada and the United States is something one cannot feel sure about for reasons that will, by now, be familiar to any reader. But the subject is worth a bit of exploration.

The difficulties are not just in looking ahead. To isolate the effect of a single cause in a national economy is all but impossible even— or perhaps especially— when the supposed *primum mobile* is something as large as the FTA. If the 1990s are a period of growth and prosperity, how much will the FTA have done to help bring that about? If the period is marked by stagnation, recession or other difficulties, were they brought on, in part, by the FTA, or would they have been worse without it? The same questions will be asked about fiscal and monetary policies which could well have greater effects than the FTA. Sharp debates about taxes and interest rates take on an extra edge in Canada because of the added irritant of exposure to policies in the United States that were set without regard to Canadian interests but can do much to push Canada in a direction it does not like.

Structural measures which are supposed to bring about permanent changes, such as the FTA, should not be judged primarily in cyclical terms. If the new trading arrangement survives a bad period— and the blame it is likely to be given for plant closings and the like— what kind of effect might it have on other elements in the bilateral relationship? Econometric models would provide some answers to that question— probably more than one— but it would be necessary to be wary of false precision in using the results. The only serious alternative— which is really required to build altogether suitable models as well— is to reason

more generally and there one must be content with conclusions that do little more than give a sense of direction.

If the FTA is to become a major factor in shaping the bilateral relationship, its disputes settlement procedure will have to work reasonably well on a continuing basis. If it does, it would seem natural for the two countries to use the same procedure, or a variant, to deal with some issues not covered by the FTA. Good experience with the FTA might encourage the removal or reduction of national controls over other activities but one cannot assume that liberalization always leads to more liberalization.[6] One could even wonder whether an improvement in the Canadian and American economies might lead people to think that additional liberalization was not worth the effort. After all, the FTA got its start partly because things were not going very well with the Canadian economy and the international economic system.

Further generalization would only add to uncertainty. For a touch of realism it is preferable to see what subjects will be on the bilateral economic agenda in the future no matter how the FTA develops.

To start with, there are matters that were left out of the FTA or not fully dealt with although they might have been. Some *products* were left out, notably beer and sugar. *Agriculture* figures more prominently in the FTA than most people expected but few issues can be taken as finally settled in a field where trade— bilateral or with third countries— is so closely connected to domestic farm policies. Another reminder of the fact that disagreements about trade can involve more than tariffs and quotas came in the field of *fisheries* where the two countries have had trouble since the 18th Century. Two of the first disputes referred to FTA panels concerned Canadian regulations about landing fish on the west coast and American rules about the size of lobsters that could be sold.

Services will be on the bilateral agenda for a long time to come whether negotiations are thought of as applying the FTA's principles, extending them to additional fields, or going beyond the approach already accepted. Although telecommunications along with banking and other financial services are dealt with in some detail, new issues are bound to arise; not only do changes in these dynamic fields affect almost all other economic activities but they are are themselves subject to change in technology and regulation.

In dealing with *investment* the FTA mixes new rules and old practices. Application and interpretation are bound to raise new questions and revive old ones. Although the focus in the negotiations was on Canadian regulations (as the Americans had almost none) there have since developed real possibilities that Washington will take steps to respond to concerns about growing foreign investment in the United

States. Depending on what was done, the United States might have to exempt Canada from the new rules or treat it more favorably than other countries (which might raise questions of treaty obligations to the others). A global change— the increased internationalization of business, which will come up again later— makes it more difficult than ever to define true ownership and control; both Canada and the United States have an interest in how the other handles this potentially touchy subject.

Regulation as well as liberalization adds issues to the bilateral agenda. For example, Ontario's changes in rules covering the securities markets affected the FTA negotiations; an agreement on cooperation to detect money laundering avoided disputes about rules and bank secrecy; differences in the licensing of trucking affects competition between Canadian and American companies; arguments about equal treatment, reciprocity, and balanced bargains in banking are almost entirely concerned with rules, laws and their administration.

Discriminatory government procurement, which affects a large amount of trade between the two countries, is only partly dealt with by the FTA or the GATT code and deeply involves states and provinces. Agreements between the two countries going back to the 1950s were supposed to eliminate discrimination in much defense procurement but have been counteracted in part by Congressional restrictions, Canadian insistence on production in Canada to offset the costs of purchasing equipment in the United States and concern on both sides with balancing the trade.

The larger subject into which these matters fall, namely the *economics of defense*, is rarely spoken of these days but used to be much discussed when Canadian-American trade was being analyzed. As the international play of power changes, old questions will have to be reasked and new ones raised. For example, are Canadian minerals, reachable by land, still essential to American security? If security was one of the reasons the United States wanted Canada's commitment to share energy resources in an emergency, what about Canada's dependence on the United States for food and some manufactured products? The domestic capacity to produce certain things seems essential to security but those things often have civilian uses as well; should they be exceptions to commitments about trade and investment? Canada and the United States have recognized that in military matters they need a common defense; do they think of themselves as an economic unit for defense purposes as well? *Security* is no longer thought of primarily in terms of energy, scarce minerals and steel; it is a matter of high technology where the aims and motives for subsidies and other forms of government help become mixed and both Canada and the United States

have ambitions. Moreover the issue is not just a bilateral one. Already before the 1990s began a hum could be heard rising from think tanks, universities and newspapers all over the world as people began generating ideas (and words) about the ways that the reduction in tension between the United States and the Soviet Union would create a need for *new concepts of security*— and the broader the approach the more questions it will raise about national economic policies and international agreements, not least in North America.

A different dimension of security or of foreign policies to support it has troubled relations between Canada and the United States in the past: often American *restrictions on exports* of supposedly strategic products have been stricter than those of Canada, and Washington has tried to apply its rules to American-owned companies in Canada or to Canadian firms using American technology. The conflict of jurisdictions not only creates disputes between the governments but can put businessmen in positions in which they cannot avoid getting into serious trouble in one country or the other. If such problems persist, Canada would have good reason to discriminate against American investments or technology when there were European or Japanese alternatives that would escape the American regulations and not jeopardize Canadian exports. Quite often compromises, quiet diplomacy, and perhaps restraint in enforcing the law or pressing for all commercial advantages have held the problem somewhat at bay. Although changes in the USSR and eastern Europe are likely to reduce the occasions for friction, other countries may be involved, as Cuba has been. The whole question would take on new dimensions if export restrictions were imposed for reasons of economic policy as well as security. The enthusiasm of American business about stronger international measures for the protection of intellectual property raises questions in other countries about the terms on which their nationals can use patents, know-how, and other forms of intellectual property.

Extraterritoriality has also been involved in American efforts to apply the anti-trust laws to activities in Canada. Again informal arrangements and consultation going back to the Eisenhower administration have kept the issue within manageable bounds, but it will take on new importance as the two economies become increasingly open to one another. So will other measures affecting *competition policy*. Differences in *tax laws* may also become more important as they influence location, the ways businesses organize themselves and where companies take the profits on the high proportion of bilateral trade that is carried on within single firms. Equally obvious is the fact that such issues create opportunities for cooperation between authorities.

Perhaps the largest range of new issues between the two countries will concern the *environment*, to use that term as shorthand for the whole range of questions connected with pollution, health, safety and the protection of nature. Canada and the United States were pioneers in dealing with some of the international aspects of these issues when, near the beginning of the century, they set up the International Joint Commission to deal with the many questions arising from their "boundary waters," but the changes in public awareness and ideas about the distribution of burdens and benefits will generate new issues for a long time to come and require new methods for dealing with them.

Another old and inescapable issue that is taking on new dimensions and will be with the two countries for as far ahead as anyone can see is the *exchange rate* between the two dollars. Potentially one of the chief tools in Canadian macroeconomic policy, its ability to offset what is done in the United States is limited. A major question will be what influence Canada can have on the changing methods of formulating American exchange rate policy and on American or international efforts to control the relation of the major currencies to one another.

The list goes on and on and only space prevents the naming of many more economic issues which will be important to the two countries in the future as sources of disputes or opportunities to cooperate, or both. Some already have a history and a day-to-day existence, such as the question of the *cultural industries* where many Canadians see vital elements of national identity but many Americans see largely commercial questions. Other questions concern the uncertain future such as the fear of many Canadians that someday they will be pressed to export *fresh water* to the United States, a possibility that some other Canadians think would be a rather good way to increase export earnings. How *changing economic relations with the rest of the world* may affect the bilateral relationship is the subject of a later section but we shall have to leave to the reader's imagination the scenarios that could unroll concerning *immigration, labor laws and policy, intellectual property*, and the mounting problems for both countries raised by the disposal of *waste*, hazardous and otherwise.

Different as they are from one another, most of these issues have one feature in common: there will be disagreements within Canada and the United States as to what to do; the play of political forces will frequently come out differently in the two countries; one result will often be bilateral differences in which the division of interest and opinion will cut across national lines. Washington and Ottawa will have to compromise or they will have to struggle. In the process issues that are of real concern only to certain groups will be treated as matters of high national interest. All these things will happen whatever becomes of the FTA.

Have we come close to saying that the future of Canadian-American economic relations will be like the past with a constant stream of issues, some familiar and some novel, that will push the two governments into disputes that need settlement or, at least occasionally, give them a chance to cooperate in pursuit of a common interest? Perhaps, but before coming to that conclusion those who want to think about the long-run must ask what elements in the bilateral relationship (other than the FTA) and in the major factors influencing it are likely to change and which will not.

CHANGING AND UNCHANGING CONDITIONS

Looking back is sometimes a help in looking forward. In the mid-1980s I was asked to survey the past quarter-century of Canadian-American economic relations.[7] I found that although there were several dozen issues or episodes— not all of them government-to-government— that had to be taken into account, almost all of them fell into the same major categories that had been used by Irving Brecher and Simon Reisman in their study of Canadian-American economic relations for the Gordon Commission on Canada's Economic Prospects in 1957: trade, investment and the transmission of business cycles across the border.[8] These familiar labels covered just about everything except for issues arising out of foreign policy or defense matters, with which Brecher and Reisman were not trying to deal, and environmental questions which had not then risen to today's heights. Needless to say, the issues were not new when Brecher and Reisman made their categories; one has only to look at the literature about the 1930s or the effects of two world wars on Canada.

It is in the nature of things that the similarities of these lists conceal changes. The Canada of the 1990s is very different from the Canada of the 1950s, let alone the 1930s, and the United States has changed, too, in terms of production, consumption, finance and foreign trade. It follows that relations between them must also have changed in significant ways. And even when the questions have not changed very much, the answers may be different. In the 1950s Canadians were concerned because the United States was restricting imports of their oil; in the 1970s Americans worried that Canada would not sell them enough. In the 1930s and for some time after the second World War Canada encouraged the growth of American investment; before long the emphasis shifted to setting conditions and limitations. It was a traditional Canadian view that trade negotiations should be multilateral, at least partly to avoid having to deal with the United States in isolation; but then the great preoccupation became secure access to the American

market and that seemed to call for a bilateral free trade agreement. Putting the agreement into effect—or failing to do so—will again change the character of some of the familiar questions. Perhaps the changes will be as drastic as some people think but, as I have tried to demonstrate, that may not be so. In the long perspective of this essay it makes more sense to think about the conditions that by changing or not changing will help shape the issues than to speculate about questions in detail.

It is best (and easiest) to start with what will not change. Geography provides a familiar list: the famously long and unfortified frontier (including the Alaskan section that is less talked about); the shared seas on both sides of the continent; the configuration of Canadian settlement and economic activity in a long east-west corridor paralleling the border; the natural flow of north-south connections across the frontier in some places. All this makes it inevitable that the two countries have more to do with one another than either has with other countries. The relative openness of the two economies, and of the societies as well, stimulates interaction. Life, and often attitudes, are significantly different in the two countries, as anyone who has paid attention knows and Canadians are quick to point out to those who, as Lester Pearson explained to an American group in 1931, "are deceived by the great similarities."[9] Nevertheless, the degree of social homogeneity that does exist and the common language of most of the people do much to increase contacts across the border. As these conditions have lasted a long time, the economic and personal ties that have grown up have created a dense network of complex, often half-hidden, links so that what happens in one place can generate multiple reactions that are felt far off and are often unpredictable. Out of these conditions has come what John Sloan Dickey, after years of close observation, called "an organic system of human affairs" that is more a "transnational, public-private mix" than a traditional set of interstate relations.[10]

Changes in the mix are inevitable. Some ties can be weakened, deliberately or otherwise. But a drastic dilution of the basic density is hard to imagine. So is a major alteration in the asymmetry that is so fundamental a characteristic of the economic relations of the two countries. The American economy is roughly ten times the size of the Canadian economy by almost any relevant measure. With such proportions it would take an immense difference in growth rates to narrow the absolute difference to any significant degree. To be sure, the over-all difference does not apply to every field. On some issues the two economies are more nearly equal in strength, and sometimes Canada is the more important partner. The asymmetry is also not an accurate measure of bargaining power, at least as affairs are normally conducted, as Joseph

Nye made clear quite a while ago.[11] But there is no escaping the fact that the great difference in size makes the Canadian economy much more vulnerable to what happens in the United States than the other way round.

This kind of dependence is increased by the fact that foreign trade accounts for a high proportion of Canadian economic activity and that most of the trade is with the United States. Even if Canada's GNP increases substantially during the 1990s, partly in response to the stimulus of the FTA, the volume of trade might well increase faster. That is what happened when the production of automobiles and parts in both countries was reorganized after the free trade agreement of 1965. It is what has happened to the world economy during most of the postwar period.

Patterns of trade and production have changed but not the fundamentals of the general situation. The idea of diversifying foreign trade and the sources of investment to reduce the share of the United States is an objective that has appealed to Canadian statesmen as different as John Diefenbaker and Mitchell Sharp. The efforts to do so have had little or no success and the adoption of the FTA implies that a reduction of the American share of trade is no longer an objective of Canadian policy— at least for the time being. There are, however, some factors at work in the world economy that might bring about more diversification than was achieved by past policies. The ability to produce and export a wide variety of goods is spreading around the world, often displacing the United States as the best source of products. Canadian exports of coal, oil, uranium, and metals are going to an increasing number of countries. Companies based in Europe, Japan and often other countries are investing all over the world and not ignoring Canada. An increasing number of Canadian companies are spreading their business around the world, by trade or investment. The increased international mobility of capital and the internationalization of business encourage enterprises which put together management, control, equity, loan financing, and technology, all from different countries. Although the FTA may well give a strong stimulus to the exchange of services between the United States and Canada, and their proximity will further the process, global diversification of production and trade is proceeding in that field as well.

The internationalization of business is likely to have other effects on the relationship between the United States and Canada, as we shall see. To speculate as to how much diversification it might bring to the Canadian economy and where it might, instead, intensify integration with the United States would only underline the soundness of the

decision to avoid making prophecies. It would also not get us very far to try to trace the changes that might take place in a whole catalogue of Canadian-American relations. The concerns of many Canadians about the high level of American direct investment in Canada will not evaporate because the two countries are to be part of a free trade area, or because of the great growth of Canadian investment in the United States, and such matters are of more importance to the themes of this essay than numbers would be. Oddly enough, however, there is some point in raising questions about a more intangible subject: how Canadians and Americans might respond to the balance of continuity and change in their relationship.

The Canadian gamut

There is less to be said about the Canadian approach than the American, largely because of the asymmetry itself. In dealing with the United States no likely degree of diversification would go far to relieve the Canadians of the need to do what they have always done to offset the disadvantages of their position through the choice of issues, the deployment of human resources, and skilful diplomacy. They will continue to have to search for allies inside the United States and find the most effective ways of presenting their case, whether the forum is judicial, administrative, diplomatic, or legislative, or if the matter needs the support of public opinion. Perhaps the consultative and disputes settlement procedures of the FTA, or some later development of them, will also help by increasing the range of possibilities and exposing issues in their true dimensions.

In the 1931 meeting already mentioned, Lester Pearson said of the two countries, their "intimacy will grow as they grow." Whether he proves to be right or wrong, there is no doubt Canadians will continue to argue about how intimate their relations with the United States should be. And even when two or more Canadians accept the same general statements as to what they want, they will not draw the same conclusions about policy. One ought to expect, however, that the very fact that Canada is so intricately entwined with the much bigger United States will continue to instill wide acceptance among Canadians of the idea that some policies should be pursued primarily because they help to define and maintain Canada as a distinct national identity. Whether fully articulated or not, this view implies that if such measures have a cost that could be avoided by a different economic policy, it should be paid anyhow— although the size of the cost, and who pays it, are not matters to be ignored.

There is nothing new about this line of thought. It is a natural reaction of a country in Canada's position and has undoubtedly grown

as Canada has gained economic strength. In 1931, Pearson told the group at the Council on Foreign Relations: "Canada is obliged to develop some degree of nationalistic sentiment if she is to protect her identity from being swallowed up by a neighbor numbering 120 million people." In 1975, John Dickey said that over a relatively recent period, "Canadian nationalism has moved haltingly but unmistakably from precept to public policy. The outlook for some years is for more of the same in both cultural and economic affairs."[12] In the time I have been paying attention to Canadian-American relations, say from the early 1940s to now, I have seen very clearly how views on a number of issues that were once regarded as somewhat unseemly expressions of a narrow nationalism have become not only "respectable" but often common enough to get general support. The most serious broad challenge to the FTA was the allegation that it would undermine Canadian identity and autonomy. In denying this, the government and other supporters of the agreement emphasized some key "nation-building" policies that, they said, could be continued under the FTA. The flat exclusion of the "cultural industries" from the provisions of the agreement had broad general support largely for these reasons.

Needless to say, consensus on principle does not necessarily lead to agreement on practice. Disputes about which policies will promote national identity— or are even essential to it— are of the same order of magnitude and intensity as the clashes between claims that diametrically opposed measures will best serve "the national interest." Such differences of view will continue and affect much more than economic policy. It would be quite out of place for the author of this essay to thread his way through the Canadian controversies, much less to try to adjudicate them. There are, however, a few general points that are relevant to our effort to take a long look ahead.

(1) There has been a confusing tendency among Canadians and others to use the term "economic nationalism" as if it referred only to a number of specific policies— with some change over time as to which ones— advocated by people who call themselves nationalists (and are so-called by others). This is too narrow a usage, as the last few paragraphs have suggested.

(2) In debates on these matters, the issue is often not properly joined because one side stresses the loss of Canadian independence from giving up a certain line of action while the other side says that by doing so the country will gain economic strength and will benefit from the fact that other countries, notably the United States, will be similarly bound.

(3) The geographic, economic and linguistic diversity of Canada and its political consequences have given rise to many policies whose

purpose is to help "tie the country together" or live with differences. These expressions of Canadian nationalism are primarily domestic but may affect the country's external relations as well, and not least those with the United States.

(4) The cost and benefits of alternative policies often cannot be determined by domestic considerations alone: the response of the rest of the world may be important, especially if there are questions of retaliation or reciprocity. More generally, if Canada retains freedom of action on certain matters, what kinds of treatment can it expect from other countries, and especially the United States? If Canadian nationalism stands in the way of an international agreement on a certain matter, can it count on others to reach agreements with Canada on matters of special interest to them?

Other countries as well as Canada have to take account of what the rest of the world will do in calculating their national interest. But the extent to which "the rest of the world" is made up of one country, so far as economic relations are concerned, makes Canada exceptional. In the way the two countries approach the bilateral relationship there is an asymmetry that is different from the one based simply on size. For obvious reasons— and some that are not so obvious although they are fairly familiar to those who have studied the question— American policies are shaped with less attention to Canada than Canada gives to the United States. Is there any reason to expect this to change in the future?

Changing American perspectives?

Probably the greatest potential source of change in American policy toward Canada is the internationalization of the American economy. Partly the product of the changes in the world economy mentioned earlier, this continuing process comprises many things: A great increase in the ratio of foreign trade and investment to the gross national product; the heavy dependence of some products— and even whole sectors of the economy, such as agriculture— on exports; the equally great increase in the dependence of much American production on imported components; the expanded place of imports in direct consumption, from the supply of food, beverages and luxuries that used to make up most of the list to substantial shares of manufactured products of all sorts; the high proportion of the profits of many major American firms, in a number of fields, that come from foreign earnings, whether through trade, investment, production abroad, or the sale of technology; the substantial share of the transactions that are in some sense foreign in banking, finance and other parts of the higher reaches of

the service economy; the increase in foreign ownership and control of parts of the American economy.

This internationalization— which shows every sign of continuing indefinitely— has many consequences. One is that the sustained satisfactory performance of the American economy depends more than ever before— except perhaps in the earliest days of the republic— on a sound and advantageous position in international trade and finance (which is not to say that major changes in domestic performance and policies are not also essential). Another consequence is that the traditional distinction between foreign and domestic issues continues to fade and the real economic interests of many Americans have changed so that the national interest has to be reckoned differently from the way it was in the past. It follows from all these developments that one of the aims of American economic policy has to be, more than before, to draw the maximum benefits from foreign trade and investment not only to overcome the difficulties that have beset the country for some time but as a lasting objective.

Although many aspects of the internationalization of the American economy have been widely recognized, the consequences have not yet been fully absorbed into American thinking, much less policy-making. As Americans come to appreciate these points they will surely pay more attention than in the past to their extensive economic relations with Canada. But what conclusions will they draw? Some Americans will be tempted to try to find ways to exploit the asymmetry in size and power to make arrangements that are as one-sided in their favor as Canada can be brought to accept. How far could that process be pushed? Other Americans will point out that a United States that is more dependent on external relations has an increased interest in cooperating closely with Canada. How persuasive will that line of reasoning be?

Naturally no one can answer these questions with any sense of assurance, but there is reason to worry. When the United States government is troubled, bothered and frustrated and wants to use its muscle, it can do a good deal of damage— as Canadians learned in 1971 when the Nixon Administration took drastic steps in trade and finance that jolted the international economy. Although Canada was not the target, it was hit hard and the United States provided no exemption as it had done in previous cases. It modified its measures only after Canada made concessions on a "laundry list" of issues. Even without a crisis the American political process lends itself to measures that look to foreigners like unilateralism and often bullying. A narrowly conceived American economic nationalism can do a great deal more harm to Canada than Canadian nationalism can do to the United States. Even honest efforts

to find how to extract the greatest possible benefit from foreign economic relations are easily exploited by groups that will claim that the privileges they want will serve the national interest. After voicing the familiar and fully justified Canadian complaint that the United States often seems unconscious of its northern neighbor, Pearson said, "As a Canadian I am afraid that the United States will take too great an interest in Canada. This is on account of American economic interests in Canada being so great." May that time be coming?

There is another set of possibilities. Sometimes Americans pursuing their own limited objectives will advocate measures that are also beneficial to Canada. Some have major interests in Canada; others will want Canadian help. The U.S. government may find more occasions than before on which its wish for cooperation with Canada goes beyond rhetoric or politeness. For the distance we are trying to look ahead, however, the likelihood of wise and durable American policies toward Canada would require a more solid base than past attitudes or current commitments such as the FTA. That base has to include a continuing realistic understanding by Americans of the economic relations between the two countries.

The key features of that realism are easily summed up and have mostly been touched already. Few Americans are really conscious of the discrepancy in size of the two economies. Consequently, they do not realize that many economic issues not only are far more important in Canada than they are in the United States but have political, social and sometimes psychological dimensions that they lack for Americans. Two major examples are familiar. Investments that look to an American firm like a normal expansion of business often make Canadians uneasy at the extent of foreign control of their economy. The "cultural industries" are approached in terms of national identity by Canadians, but what most Americans see first are such issues as the proper payment for cable broadcasting, free competition among movies and discriminatory taxation on advertising in periodicals.

Most Americans also need to know more than they usually do about the political disagreements among Canadians, including those arising from economic issues, such as the differences over the political consequences that might flow from the FTA. An appreciation of the different situation of the two countries would help Americans understand why Canadians often try to build safeguards into new arrangements while at the same time insisting that agreements should nominally treat both countries equally.

Underlying all the other points is the need for Americans to remember what many of them forget from time to time: that Canada is a foreign country whose citizens are concerned with their own sover-

eignty and national identity. Moreover, a realistic view of the relationship should, in my view, recognize the continuing interest of the United States in having a strong, independent Canada as its neighbor. Such a Canada could not exist if the United States habitually used its superior power to extract one-sided concessions or took frequent steps that weakened Canada. If the United States made it a regular practice to flex its muscles and exploit the asymmetry whenever it saw fit, or in response to domestic pressures, the natural result would be to generate as much opposition as Canada could muster, not only on the immediate issue but in other things, too. There might well be special emphasis on matters on which the United States wanted— or needed— Canadian cooperation, whether they were bilateral or concerned the rest of the world. The relations between the two countries would deteriorate and anti-American sentiment would grow in Canada and spread to larger parts of the population. It would become responsible statecraft for Canadian leaders to find policies that would be damaging to the United States, if only to offer not to adopt them. A Canada driven to that pass— or allowed to arrive there by misguided Canadian understanding of the relationship— might damage its own interests but would at the same time be making things worse for the United States.

Because of the density and complexity of relations between the two countries it is especially important that the United States adopt a broad-gauged approach to Canada that is informed by a sophisticated as well as enlightened conception of the national interests of both countries. But there are aspects of the "intimacy" and the "organic system" that make it difficult to devise and sustain policies that will serve these large purposes. The chances of the United States treating Canada sensibly in what promises to be a difficult future depends in part on how both countries see their special relationship. However uneasy that term has sometimes made some Canadians, there is no escaping the fact that the relation between the two countries is unique. As that clear-thinking, plain-speaking Canadian John Holmes once pointed out, "Much nonsense is talked about the end of a special relationship between Canada and the United States. It is and always will be a special relationship requiring unique definitions, but it can change."[13]

THE DYNAMICS OF THE FUTURE

Whether the United States pursues a broad-gauged or short-sighted approach to Canada; however narrow Canada lets its nationalism become; if the changes in international politics and economics give the two countries more opportunities than before or reduce their choices; and whatever the balance of continuity and change in the factors we have

looked at and others, the future development of the relationship of the two countries will be shaped to an important degree by the dynamic forces at work in three fields: the international economy; American and Canadian business and labor; and the changing distribution of political power in both countries.

The international setting of the bilateral relationship

Since the end of the second World War both Canada and the United States have based their foreign economic policies on the need to build up a system of multilateral cooperation. Most of the time they found that the largest part of their economic relations with one another could be well handled through the multilateral processes. When they felt the need of direct bilateral arrangements these were seen, sometimes implicitly and sometimes explicitly, as supplementing the multilateral rules and procedures and not as incompatible with them. The FTA, for example, both respected multilateral commitments and went beyond them. But there was another side to the decision of the two countries to negotiate the FTA: both, in somewhat different ways, felt frustrated by the failure of the international system to deal with problems important to them. For Canada there was the wish to reduce the hazards of the American fair trade laws and perhaps additional barriers if American unilateralism became more troublesome. For the United States there was the wish to push ahead with further multilateral trade negotiations against the foot-dragging of the European Community and some other countries. There were, naturally, other factors at work, but both these preoccupations reflected the serious deterioration of the system of international economic cooperation that had been going on since the early 1970s.

The process of deterioration is clear enough and can be summed up by contrasting the principles of trade liberalization, equal treatment, and multilateral cooperation underlying GATT and the rest of the Bretton Woods world with many of the things the major trading countries have done in the last 30 years. Familiar examples concern textiles, steel, automobiles, imports from developing countries, the treatment of a long list of products that at one time or another seemed troublesome and the associated resort to discrimination, bilateralism, and unilateralism.[14] There is no place for further detail here but this background needs to be kept in mind in considering three questions. Has the FTA created new common interests between Canada and the United States that would affect their behavior in multilateral negotiations? Should the two countries expand the FTA approach to cover other issues if they are not effectively dealt with in the Uruguay Round? Would either

or both countries do well to give up primary reliance on the old multilateral system and put their main emphasis instead on bilateral agreements with countries around the world? Once again we can only discern the long-run issues by taking a shorter view first.

The Uruguay Round may already have provided part of the answer to the first question, but we cannot tell as this essay is being written before the final bargains are struck and the record of the negotiations revealed. What needs to be discovered is how far Canada and the United States cooperated or worked at cross-purposes and whether they made any progress on the various issues the FTA left for joint action in the larger forum. The impression of most observers is that the FTA has had very little influence on the Uruguay Round. But the Uruguay Round seems to have held up work on the unfinished sections of the FTA dealing with subsidies and countervailing duties. If, in the end, the Uruguay Round produces only modest improvements in the multilateral handling of subsidies, as seems likely, that is bound to have a bearing on the other two questions.

All three questions touch on a somewhat neglected aspect of the FTA. It constitutes an exchange of privileges. If either of the partners wants to extend those privileges to a third country, the other obviously has an interest— large or small— in the results. Apart from the loss of an advantage in selling a particular product, or having to share an assured status for some kind of activity, a country might be concerned that it had lost the counterpart of some commitment it had made in the difficult and complicated negotiations so that the balance of the bargain would be altered. Although such considerations would apply to tariff reductions, they might be particularly important where the innovations of the FTA are concerned— services, investments and some other matters. Canada, for example, might find it quite unfair for the United States to give Europe or Japan equal privileges in some of these matters if they do not treat the United States as well as Canada does or, for that matter, do not give comparable rights to Canada.

The first major test of these issues is almost certain to arise in American negotiations with Mexico. Perhaps by the time these words are read it will be clear how serious any of these issues may be and how they are to be dealt with. Does Canada's having a seat at the negotiating table mean the result must be a new triangular agreement? Might Canada and Mexico reach a separate bilateral agreement? Would it be sufficient— or preferable— for Canada and the United States to work out ways to make sure that a Mexican-American agreement does no serious damage to Canada? No effort was made in the FTA negotiations, so far as I know, to agree in advance how such issues were to be handled, even

though it had become clear that the United States would soon be entering serious trade negotiations with Mexico. At that time it was hardly to be expected that the agreement with Mexico would be anything like as sweeping as what was taking shape with Canada. Indeed, the idea of free trade with the United States was politically at least as explosive in Mexico as it had been for a century in Canada. The changes in Mexico that have made it possible even to talk of the possibility came with such remarkable speed that it would take a daring prophet to feel sure that in the end a true free trade area would in fact be acceptable to the Mexican electorate. Even if an American agreement with Mexico falls quite short of the Canadian-American FTA, it is likely to affect Canadian interests. How that issue is handled will tell us something of the future of Canadian-American relations.

Any of the possible approaches gives new life to the old idea of a North American common market (or free trade area). In the past this possibility has never had to be taken very seriously so far as practical policy was concerned. Usually it was put forward by an American academic or politician who thought it seemed a "natural" development to be fostered and it was then firmly rejected by both Mexican and Canadian governments— if they paid any attention at all. There will still be objections to the idea (probably in the United States as well) and there will surely be disagreements as to just how open this common market should be and how it would be brought about. But now the subject will have to be studied seriously. Obviously the creation of a triangular economic entity would further alter— but not altogether replace— the bilateral relationship between Canada and the United States.

If the United States and two of its largest trade partners constituted a free trade area— or two free trade areas— the arrangements for American trade with the rest of the world would come into question. Other countries would follow the examples of Japan, Chile, ASEAN, and Australia in asking if they, too, might negotiate bilateral free trade agreements with the United States. Most prudent American analysts have pointed out that relations with Canada and Mexico are quite different from those with other countries and that the earlier free trade agreement with Israel almost belongs in another category. But every so often something is said or done in Washington that seems to mean that the United States is prepared to negotiate the removal of trade barriers with anyone who is interested and in any combination. That is a dangerous position. The case against bilateralism as a dominant form of trade negotiation is strong; the use of bilateralism or bloc-building as means to more general trade liberalization, though possible, requires farsightedness, determination and luck. The prospects depend heavily

on circumstances and can hardly be judged in general terms. The subject is too complex for proper discussion in this essay, but as something needs to be said I can only set out my conclusions in rather dogmatic terms.[15]

As a substitute for the multilateral trading system the accumulation of bilateral agreements is not very promising for either Canada or the United States. As a means of removing barriers to trade more effectively than is proving possible by traditional GATT rounds involving large numbers of countries, the idea of bilateral or other negotiations among countries willing to go farther in liberalization than the rest has attractions. It always has had those attractions; GATT itself was such a case and its immediate forebear was the Hull Trade Agreements program which used bilateral negotiations to broaden the use of most-favored-nation treatment, a key element in multilateralism. The bilateral approach also presents difficulties, not least in avoiding the multiplication of discriminations, fitting the agreements together in ways that make economic sense, and holding back strong countries (including the United States) from using bilateral bargaining to exploit their weaker trade partners. It is almost inevitable that some bilateral agreements would put a premium on exclusive privileges, and there would be few that did not exempt some products from liberalization. When other pairs of countries negotiated their own bilaterals, the United States would have to find ways of trying to avoid more serious discrimination against its trade than was inescapable. One has to be rather skeptical about how far the results of all these activities would counteract the deterioration described above, and how far they would exemplify it.

If the honest objective was to further the liberalization of world trade there would be little reason to think only of bilateral agreements. Free trade areas could include groups of countries, not necessarily on a geographical basis. (The idea of simply extending a North American free trade area to the rest of the hemisphere is highly dubious). The emergence of a few large blocs is another possibility and that would add hazards to global liberalization. In my view the main objective for Canada and the United States should be a strengthened multilateral system; one part of an effort to achieve that would be to push ahead with increased liberalization among like-minded countries. However, two countries cannot build a multilateral system, and a greater emphasis on bloc-building might be forced on them, with fewer opportunities to make it fruitful, benign and constructive in strengthening the multilateral system. Arguments based on the success of the FTA in these respects have to be handled with care, since bilateral arangements set in a

multilateral system that both parties want to strengthen tell very little about a system in which the dominant forms are bilateralism and blocs.

In a world of blocs, whether used to liberalize or not, the FTA would be a godsend to Canada— and a North American common market a good investment for the future. For the United States the FTA would help and an agreement with a large and growing Mexico would add substantial benefits. But there would still be a strong need to try to strike bargains with other large economies, such as Japan and the European Community, while also looking for ways to outmaneuver them in relations with developing countries. Canadians would have to worry about how much attention would be given to their interests in such efforts, and about the way that kind of trading world might stimulate American unilateralism. Again the bilateral relationship would have to be looked at in a somewhat different light from the past.

Whatever combination or variation of these possibilities about the future of the trading world comes to pass, one thing that is clear is that the resulting external pressures will have a significant bearing on Canadian-American economic relations. This would be true even if the FTA collapsed, but if it remains fully in force the question of how Canada's interest in American trade negotiations with other countries is to be taken care of will persist. (And if there is a Mexican-American free trade area the same question will arise about Mexico when the United States undertakes negotiations with other countries— or with Canada). This development is, in a way, ironic— or even amusing— since it has been an article of conventional wisdom among Canadian internationalists for a long time that while a free trade area with the United States might be very desirable, a customs union would be unacceptable because in setting a common tariff against the rest of the world (and probably other common measures as well) the United States would have the upper hand and Canada's autonomy would shrink.

North American business and labor

Whatever form the international system evolves into, the ability of Canada and the United States to deal effectively with the resulting difficulties will depend to a high degree on the competitiveness of the North American economy. To be competitive in the world economy the United States and Canada have to regain some of their lost advantages and retain those that are still usable. They also have to gain, or retrieve, flexibility without which today's competitiveness will become tomorrow's lag. What needs are greatest and what has to be done about most of them are matters to which a great deal of analysis and preaching

have been devoted in recent years. There is a broad consensus on what needs to be done for each country, and it is largely correct. It does not need to be repeated here.[16] One thing is very clear: although the actions of governments can do a great deal to increase the competitiveness of their economies— or impair it— the results depend on how business performs, and that in turn can be significantly affected by the performance of the labor force.

Our discussion of structural change dealt implicitly with competitiveness when it focused on gains in productivity, cuts in costs and the benefits of producing for larger markets. These were seen as consequences of the FTA's being applied quite fully by both countries and carried out in the liberalizing spirit that provided the basic impetus in the first place. If, instead, there is a narrowing of the FTA through a drawing back from its provisions, a negative approach by either of the governments, or a failure to adapt the agreement to changed circumstances, there could be a reduction in the flexibility and competitiveness of the two economies. In such circumstances there might be other gains— for example, in national autonomy, or the kind of security that rests on domestic control of supplies or activities— and they might be favored by those whose choice could make the difference, but they would almost certainly be acquired at some economic cost and would make for a lower level of productivity than might otherwise be achieved. Generally speaking, such trade-offs would be economically more costly to Canada than to the United States, simply because a larger part of its economy is involved in bilateral exchanges. But the non-economic gains, if they can be called that, might also be greater.

What contribution the removal of barriers makes to productivity will depend largely on the behavior of business. Structural changes require that companies make investments and alter patterns of production and trade. There was a good bit of business support for the FTA in both countries, so presumably many business people believed that opening up the bilateral relationship would present useful opportunities— but to do what? Simply to widen profit margins on existing activities is a possible answer but probably not a sufficient one. After the FTA was in place, a number of business groups pressed for accelerating the reduction of tariffs (as happened at the beginning of the Common Market in Europe as well). If business people accept the view that truly new conditions are being created, they will act as if the future were already upon them. In and of itself that will speed up the processes of change even if there are other people, as there surely will be, who will try to find ways of slowing down the change or blocking it altogether. The range of possibilities is great.

How businesses pursue their new opportunities will affect not only their international competitiveness but the bilateral relationship as well. Many hopes, fears and possibilities are familiar: American firms will close their Canadian branches; they will establish new plants in Canada from which to supply all of North America, or the world; American giants will buy out their Canadian competitors or drive them out of business; Canadian companies will put more and more of their plants in the United States. On the contrary, as barriers fall there is no need to jump them so Canadian capital can stay home and create new sources of wealth and jobs through production in Canada; the rise of money centers outside New York will include Toronto and Montreal— or the Canadian cities will fall behind Chicago and San Francisco; capital will flow into Canada or out; there will be more competition than before, or less as production is concentrated in fewer companies. No doubt many of these things will happen but in different ways in different industries. Sound predictions may be made if one knows an industry well enough or the situation of a firm, but to cover the whole field goes beyond the state of anyone's public knowledge.

Although industries often call on governments for support, managers and entrepreneurs also like to keep officials out of their affairs. So if the machinery of disputes settlement was not working well, or became too politicized, firms might well try to find ways of settling quarrels by private understandings. To save time and money they might try to steer clear of the official machinery by negotiating their own settlements, or to avoid some disputes in the first place by, for example, dividing markets among themselves. Clearly, it would often not be in the public interest to let business substitute for government in this way and yet officials might be tempted, partly because this kind of "self-regulation" might seem more effective than anything they could impose, or simply because it is easy to get into a frame of mind that says that the object of a disputes settlement procedure is primarily to settle disputes and only secondarily to ask who benefits from the terms of the settlement and how the public interest is affected. The way to prevent— or at least offset— the development of undue coziness between businessmen and officials (or politicians) is probably by a combination of means, such as making the disputes settlement process open to observation and representation by consumer, labor and other groups and providing other channels as well by which complaints about business behavior or the enforcement of laws affecting business can be aired.

Competitiveness, structural change, and the future of the bilateral relationship interact. All are affected by the extent and type of competition that goes on in Canadian and American business. It is not

hard to see how increased concentration of control of business in North America could result from the removal of restrictions on transactions between Canada and the United States and the effort to be more competitive internationally. A widely held view in the United States is that some easing of the anti-trust laws would help American companies meet foreign competition. Just the opposite course is supported by other analysts who say that only through rigorous competition at home can American firms develop the cutting edge they need to make headway in the rest of the world. Longstanding differences between Canadian and American laws about competition may become more troublesome as businesses adapt to the FTA. When market shares are taken as measures of the degree to which an industry is competitive, the FTA changes the denominator if it truly creates a single market; but even then a major difference arises between focusing on the domestic market or the world.

Investment from abroad in either Canada or the United States introduces another variable. As an expression of global enterprise by Europeans, Japanese or others it can increase competition inside North America even if the structural change brought about by the FTA has led to more concentration of control among Canadian and American corporations. Perhaps it is *potential* competition that one should stress. Part of the internationalization of business of which we have already spoken is the growth of inter-connections among companies from many different countries, through joint ventures, technology agreements, complex financing and other arrangements. Objective observers have not yet well fathomed to what extent future "business considerations" may blunt competition in some fields and create global oligopolies in others.

Because of their closeness and openess, Canada and the United States are bound to be very sensitive to the way Ottawa and Washington treat foreign investors or try to influence the behavior of foreign companies. The dynamics of business will be affected by differences in laws, practices, and conditions that some regard as favorable and others see as unfair competition. Whatever the FTA's disputes settlement mechanism evolves into, it seems bound to be loaded with cases concerning unfair competition. Behind the cases will be the larger question of how business, labor, governments and the public accommodate themselves to changes in the bilateral relationship that vary greatly but all together move toward more economic integration. In this, as in many other matters, the dynamics of business will be both cause and effect.

So will the dynamics of labor. The productivity of the work force is a key determinant of competitiveness. At the same time, the competitiveness of the economy is a key determinant of the workers' incomes and job security. In both Canada and the United States the differences of

opinion and experience as to how to maximize productivity, security, and income are great and do not correspond to national lines. Neither do prescriptions for improving matters, whether they emphasize incentives, labor participation in decisions, or the organization of work. Although there is more diversity in labor standards and practices as well as wages within each country than textbook economics would suggest is possible, the border provides a division in two important respects. The decline of organized labor as a share of the work force (and in power) in the United States has not been matched in Canada. A number of what were once international unions with members in both countries are now separate national unions. During the long period with which we are concerned, the ways these differences play themselves out against the common problems of both countries, and what broad changes may take place in the organization, status and performance of labor (organized and not) are matters of major importance that have been sadly neglected in most discussions and cannot be properly examined in this essay either.

With regard to business, as well, there are many more issues, questions and possibilities than can be dealt with here. These activities will be a major force shaping the future of Canadian-American relations— both in themselves and in their interaction with public policy in both countries. But how will this set of relations develop? There is little to go on. A few shrewd observations have been made. Consultants, professors, journalists and others have given conflicting advice to businessmen. Perhaps the strategic planners of major firms or the intuitions of individual businessmen have laid out a range of developments that separately or together suggest a plausible picture of the future. But for an observer from outside business like the author of this essay, this is one of the most opaque of the subjects on which the future depends. The long-run behavior of business and labor may well be inherently unpredictable, but a sounder basis for knowing what to watch for could surely be constructed. Much research is needed before there can be much useful analysis. There is a clear task for scholars.

The changing distribution of power— national and bilateral

The intricacy of the Canadian-American relationship is compounded by the complexity of both countries. Sharing a continent, as many have called it, would be difficult enough if "Canada" and "the United States" were the only entities involved. The structures of business and labor on both sides of the border are enough to show how superficial these conventional expressions are. Additional realism adds

further complexity when one tries to discern the actual distribution— formal and informal— of political power in both countries.

Both are federal countries. In each, important economic powers are exercised by the states and provinces as well as the national government. The allocation of powers differs significantly, with the provinces considerably stronger than the states, at least on paper. The constitutional position is also different, with Washington able through a treaty to overrule states in a way that Ottawa cannot overrule the provinces. Again, that is how things stand on paper but when state powers are concentrated in the U.S. Senate the treaty power is at risk— as happened in the case of the treaty on north-east coast fisheries signed in 1979 but not ratified. The practical methods of connecting the states and provinces to their national governments in matters involving international economic negotiations are also very different; Canada has a rather well-developed system of consultation and representation; almost nothing formal is done along these lines in the United States. Nevertheless, for all the differences, there are several fundamental similarities that link the two federalisms to the economic relations of Canada and the United States. First, the states and provinces are the political vehicles through which regional differences in economic structure and interests are brought to bear on the foreign economic policies of both countries, even though there are marked differences between the Congressional and parliamentary systems, the way the two Senates are constituted and operate, the function of premiers and governors, the party system in both countries and sometimes the way private economic interests are organized. Second, among the major issues left unresolved in the FTA are policies and practices by states and provinces, notably discriminatory public procurement and various forms of subsidy to companies locating in their jurisdictions.[17] Thus it is only with the agreement of the states and provinces that the coverage of the FTA can be extended and its principles fully applied. Third, states and provinces engage in a good bit of promotional and regulatory activity aimed at shaping the economic activity within their boundaries. Along with cities they give major tax concessions to attract new investors or keep old ones from moving away, and may provide facilities and services at public expense as well. Relatively recently state pension funds have begun to be used to finance local development. Alberta created a Heritage Fund with some of the returns from high gas and oil prices and in Quebec the *Caisse de dépot* has long been an important instrument of provincial economic policy. California had a tax on international companies related to their global earnings. Pennsylvania set up barriers to takeovers from outside the state. A number of states and provinces limit land purchases by those

who are not citizens or residents. Fourth, on an increasing scale states and provinces have been promoting their own foreign trade and soliciting foreign investment. Many have offices abroad for these purposes. Sometimes corporations owned or controlled by the states and provinces themselves are engaged in trade or investment.

These measures have national and international effects. Producers within a state or province benefit from public contracts denied to outsiders. In Canada these and other barriers to trade among the provinces are extensive; in both countries the tax concessions and other arrangements can give new producers a favored position in selling to other parts of the country or abroad. Quebec and Ontario have committed themselves far into the future to supply electricity to New York and New England even though demand may rise in Canada; in western Canada major transactions in oil and gas are no longer shaped by a National Energy Policy that gave eastern Canada favored price treatment. These activities lead to agreements between the state and provincial governments and private enterprises of their own or foreign countries and to agreements across the national frontiers between provinces and states, or crown corporations and various kinds of government-owned entities.

Up to a point, states and provinces are developing their own foreign economic policies. While these are not likely to fly in the face of national policies— and have to conform to constitutional and legal requirements— they affect the national economies. They create economic and political facts that have to be taken into account, including commitments that may not be easy to change at a later date. It does not take too much imagination to see how, as these activities increase in number and type, a state-to-province agreement on one set of economic issues might broaden to others. If New York hopes that some of its new enterprises can sell to provincially-owned corporations in Quebec, it might well decide to place some of its own governmental orders in that province. Beyond exercising formal powers, a state or province may think it makes sense to encourage its businessmen to expand the network of their relations with an area across the border for any one of a number of reasons. Or firms may deal with public bodies on the other side of the border; Bombardier agreed to manufacture some things in New York State if it got a subway car contract for New York City. How far states and provinces may go in these matters, not to mention how much real economic benefit they might gain, are matters of speculation, but there can be little doubt that activities of this sort will continue and that they will play a part in shaping the future bilateral relations of the two countries.

Closely linked with federalism, primarily a formal and constitutional matter, is regionalism, less well defined but a shaping force in the economic and political life of both countries. Sometimes there are traditional or well-established views about national policy; the West in Canada and in former times the South in the United States took a different view of the tariff from the industrial areas. Political consequences followed from the great growth in economic importance of the Sunbelt in the United States and the West in Canada. Agriculture, widespread as it is and somewhat diverse in the interests of its different branches, is strong in some regions and weak in others. The recurring difficulties between Canada and the United States about lumber have distinctive geographical aspects, and so do questions of mining or fishing. It is a matter of simple logic (or politics) that if there are regional differences there may be conflicts of regional interests, at home or abroad. The obvious next step is to see that regions on opposite sides of the border may have common interests greater than those they share with their compatriots in other regions. And, of course, geography means that some regions will lie athwart political boundaries.

Taken together, federalism and regionalism insure that within both Canada and the United States the federal governments do not have a monopoly of significant economic and political power. The allocation of power across the country and between the federal and lower levels is not static. Whether there are secular trends or cyclical movements inherent in the nature of each country is a matter about which there can be disputes. In the depression and the war the central powers grew stronger. In the early 1980s it was widely accepted that strong "centrifugal forces" had been at work in Canada for a decade or more. A mandarin said to me, "It is much harder to govern the country than it used to be." In the early 1990s the evidence is mixed, but a good case can be made for the view that the devolution of power from the center to some of the parts is continuing in both Canada and the United States and is likely to go on doing so.

There are good reasons for devolution. In her pioneering work on "the management of interdependence," Miriam Camps spoke of the importance of finding "the right level of management for problems. It seems probable that some problems should now be pushed down from the national level to the local level; others, pushed up to regional or global levels." Part of the reason for pushing down was "to try to reengage the individual in the decision-making process and to counter the trend toward apathy and opting out of the political process." Other reasons were to simplify national agendas by separating issues that affect mainly parts of the country and not the whole and to promote

efficiency and permit fuller participation by more people who have experience with a problem and a direct stake in how it is handled.[18]

Such ideas are familiar enough in Canada and the United States where there is a long history of thinking that if something can be dealt with locally it is best not to bring in Ottawa or Washington (unless their money is essential and then it should come with the fewest possible strings). The size of the two countries supports the devolution of the handling of issues that have a geographical focus, such as some environmental matters, the marketing areas for some utilities or other kinds of businesses, cross-border commuting, the integration of production, even on a rather small scale, and any number of matters touching transportation. Even if agreements on some of these matters require federal action, the national governments usually find it prudent to let local opinion carry more weight than on other issues. When there are no federal agreements there may be local understandings that work if they are not challenged or private agreements when the law allows, and thanks to the FTA the law allows more than it used to. The north-south pull that Canadians often refer to, sometimes with some trepidation, seems natural in some circumstances, may be encouraged accidentally in others, and may develop easily if no one resists it.

There are also strong forces working against devolution. The trepidation about the north-south pull is reflected in the fact that much of Canadian history can be written in terms of efforts to strengthen east-west ties so as to hold the country together. As the pull from the south is felt differently in different parts of the country, it strengthens regionalism. The many Canadian policies aimed at strengthening national cohesion depend on the ability of the federal government to act in any part of the country, to transfer resources from richer to poorer parts, and to provide a degree of equality of benefits for all Canadians. And of course the ability to control monetary and other policies concerned with economic stability and growth are elements of national sovereignty. We shall have to return to this part of the subject later on when we ask how the two countries can handle the growing complexity of their relationship. Here it is enough to call attention to the contradictory forces making for and against the further devolution of power in each of the countries. That process is bound to play a part in shaping the future relations of the two countries in the same way that the dynamics of business and the pressures of the international economy will alter the shape of that relationship— at least in part. In this, as in other matters, what happens in one of the countries may be a prime cause of something that happens in the other. But there are also major forces that arise from internal factors that have little, if any, part of their origin in relations with

the neighbor yet could have an important influence on that relationship in the future.

The most important current examples lie in Canada. Probably some readers have had a sense of unreality about this whole essay because it has said nothing about the relation of Quebec to the rest of Canada and the way the failure of the Meech Lake agreement may affect the future of Canadian federalism and Canadian policy. Acutely aware of the importance of those issues and following them as closely as I could (not easy to do in New York), I faced two of the many dilemmas that arose in preparing this essay.

As to Quebec, it is a subject that has been of great interest to me for a long time, and I did not see how it could be dealt with without taking into account factors that would have seriously distorted the essay as a whole and contributed little to its central themes. Meech Lake was a different matter. During most of the time this essay was being written uncertainty as to whether the amendment to the constitution would stand meant that one had to discuss two possibilities or bet on one. In either case, one would have to pursue a long chain of hypotheses to deal with the issues with which this essay is concerned. Now that the effort to amend the Constitution has failed, it is unfortunately still necessary to bet on one or pursue more than two and nothing that I can see in February 1991 permits me to incorporate any serious treatment of the subject in this paper. However, the next section which deals with the alternatives Canada and the United States face in conducting their future relations will touch on some of the issues raised by Meech Lake and cannot escape questions about the future of Quebec.

A blend of continuity and change

The three forces of change just examined seem likely to reinforce one element in the relations between Canada and the United States that is itself a prime example of how continuity and change are blended in that relationship. With a few exceptions— some possible impacts of the changing world economy, some stimulants to nationalism— the forces at work in these three categories seem almost certain to reinforce the other factors that make for continued interweaving of the Canadian and American economies and the growth in density and complexity of the bilateral relationship. One of the most striking things about this process of integration is that it has gone on for a long time through very different economic and political circumstances. No doubt the pace has been different at different times, and some strands in the connection have weakened while others were growing stronger, but the net effect seems clear.

One hesitates to speak of such processes going on "of their own accord." A more cautious statement is that this kind of development comprises many processes and that not all of them are clear or well understood. Their number and complexity are great enough so that, even though there are some contradictory pressures, they have the collective effect of intensifying bilateral ties no matter what the dominant relations of the two countries. Although there are some consistent features, others change, falling and rising in importance, so that to speak of continuity in the intensification of the bilateral relationship is at the same time to speak of a degree of change in its make-up.

HOW CAN THE TWO COUNTRIES COPE?

If the relationship between Canada and the United States is as special as this essay— and a mountain of writing by others— has contended, it would seem that the two countries would have to find special ways to conduct it. Are the methods they have developed so far, which go beyond the practices usual in the rest of the world, likely to prove satisfactory in the long-run future? A canvass of several major possibilities may suggest different answers to different people but will at least sketch the dimensions of the issues.

One possibility is to emphasize that the relationship between the American and the Canadian economies is in some degree a forerunner of the relations among other countries that will develop sometime in the future if the trend toward growing interdependence and interpenetration continues, as it probably will. In that perspective it would seem logical that Washington and Ottawa might well think of themselves as taking the lead in improving arrangements of the sort that are already being used multilaterally to deal with trade, investment and other problems, while at the same time devising new methods for dealing with some of the new realities. Completion of the FTA would be a move in that direction, but one should bear in mind that although that agreement breaks some new ground, free trade areas and customs unions are basically forms for dealing with old problems.

This "forerunner" approach would not take care of everything; Ottawa and Washington have to take account of many features of their relationship that do not exist in other parts of the world. They cannot, however, escape the question asked earlier as to how the two countries will deal with problems arising from their common separate relations with third countries. Lurking behind that rather awkward issue is the risk that in concentrating on the difficulties of their relations with the rest of the world Americans will act as if the FTA dealt satisfactorily with all their economic relations with Canada. That attitude would encourage

the neglect of the challenges and changes in the bilateral relationship as it was growing in complexity.

Suppose this does not happen and the United States retains a proper sense of proportion about its relations with Canada, and both countries see their relationship as unique and thus requiring special attention whether or not they break new paths for the rest of the world. Would this assumption lead simply to the banal conclusion that coping adequately with the future is a matter of negotiating new agreements whenever both countries are ready? They will certainly have to do that. The need to go beyond the agreed part of the FTA to work out new rules for subsidies can be taken as epitomizing that approach. The alternative to more agreements is the traditional practice of dealing with each case ad hoc or "on its merits." That usually comes to mean acting when a matter becomes pressing and settling it according to the relative strength of contesting forces in both countries at the moment, or letting the trouble drag on as long as it can be tolerated. "Muddling through" is a time-honored name for this time-honored process— and much of the world has come through, though probably not in the best possible fashion.

In between the ad hoc approach and additional substantive agreements is the construction of new machinery. The FTA relies heavily on this method, both in its structure of supervisory and consultative bodies and in its two arrangements for disputes settlement. The long-run effect of the FTA depends to an important degree on how well that machinery works, which is to say on how the governments use it. Judge Maxwell Cohen, the eminent Canadian jurist, has argued in favor of joint fact finding as part of disputes settlement procedure and a staff that would develop loyalties to the bilateral process and not just the home governments. Anthony Westell, a Canadian journalist and academic, writing before the FTA was in draft, proposed an annual forum for discussing any questions affecting the bilateral relationship, partly in a joint cabinet meeting and partly in a session of legislators.[19] Other people have suggested some sort of economic equivalent of the IJC to deal with whatever issues the two governments referred to it and provide objective data about possible courses of action. Should the FTA machinery work well and the disputes settlement and consultative procedures be applied to a wide range of issues, a good argument could be made that more machinery was unnecessary except, perhaps, for some specialized bodies which the two governments felt would improve the handling of some technical or limited issues.

There is a case against concentrating on machinery. Much of the history of bilateral institutions is discouraging. When there were cabinet-level bodies in the past they suffered from the fact that while Canada

could regularly field the proper high-level team, it was difficult to get American cabinet members who spent enough time on Canadian issues to provide effective counterparts— or who knew enough if they came to the meetings. The experience has been better in recent years when less formal but more frequent meetings of cabinet officers or other high level officials have shown that at least some elements of the bilateral relationship were being taken seriously on both sides. Presumably the rather frequent summits between presidents and prime ministers that have developed at least symbolize the same point. Taking the matter seriously is, of course, the sine qua non of any effective effort to deal with the interpenetration of the two economies. Without it no prescription for new machinery is very persuasive; with it, one can make a good case for a number of the prescriptions or for the view that no new machinery is needed. Ad hoc efforts can work very well if both sides want them to. So can standing machinery, but in spite of its good record the IJC was not thought capable of coping with the heavy political charge of the acid rain case.

One reason the future of the FTA's disputes settlement machinery is so important is that Canadian nationalism, the American Congress, and the discrepancy in economic size between the two countries all have an impact on machinery as well as other things. The traditional Canadian position has been that when there were joint bodies the two countries should have equal representation and weight. This natural-enough view is not always easy for the United States to accept when its economic stake is much larger than that of Canada. Realistic Canadians have sometimes argued against giving bilateral bodies real power for fear that the heavier weight of the United States would win out whenever there were real disputes (as in the longstanding Canadian opposition to a customs union mentioned above). Arrangements that are consultative may seem to lack teeth but can sometimes make it easier to swallow.

Although much of my discussion of the various methods of dealing with bilateral issues has suggested that a key test is what is "practical," there is an important sense in which none of these approaches is altogether realistic. They are based on the assumption mentioned earlier that the problems to be dealt with concern "Canada" and the "United States." Many of them do, but often that conventional way of speaking obscures the reality. In international economic relations few things are clearer than that in many, probably most, matters the real interests involved are primarily those of certain people in each country and not necessarily the country as a whole. Almost always there are some groups, or areas, or industries, whose interests are the opposite of those officially endorsed as "national." There may be a good case or

there may be a bad one for this endorsement, depending on the weight of various criteria, such as the number of people involved, equity, political power, the "general welfare", non-economic values or the supposed long-run or short-run changes the action will bring about. Tariffs provide the most familiar examples, although the real issues often go beyond the simple choice between the welfare of producers or consumers.

When there is a conflict of interest within a country, it follows that some people in each country are likely to share another country's "national interest" rather than the one supported by their government. Recognition of this fact may influence the way a national government handles a question. Politicians and officials are usually well aware of the conflicts of interest within their countries and make what compromises they think best. But the relation between the true interests at stake and the forces at play on the governments are not always identical, to put it mildly. Moreover, the intricacy of economic relations between Canada and the United States makes it difficult for people to trace the full consequences of alternative actions and thus to know how they may be affected, especially in the long run, and what they may gain or lose by compromising with fellow citizens or lending support to foreigners. For the same reasons it can also be very difficult to make objective judgments as to what compromises will do most to secure the equitable and efficient division of costs and benefits, domestically and internationally. These well-known truths apply all over the world but they have extra force in the Canadian-American setting.

The real question for us, as we try to be sensible about the long-run future, is whether the unrealistic— and to a degree fraudulent— method of defining national economic interests can be replaced by something better. For that, workable ways would have to be found by which the true interests of different groups of people in both countries could be brought to bear on the resolution of economic issues between the two countries more effectively than under traditional arrangements. Unfortunately, the density and complexity of the relations which make it particularly offensive, intellectually and economically, to turn almost every issue into a dichotomy of "national" interests also make it implausible to suppose that there can be any clear-cut or generally applicable alternative formula that would be satisfactory. Still, there are some clues as to possible lines of progress in what has already been said about federalism and regional power and the channels of interaction between two pluralistic societies. There is also some guidance to be found in the well-known experience with acid rain.

In one respect the acid rain case showed how people on one side of the border could get results by reaching out to their natural allies on

the other side. (It might be argued that in that case the ally had to be awakened). Essentially, those directly damaged by acid rain in Canada had succeeded in getting their case recognized by Ottawa as a matter of national interest but their relief depended on action in Washington. There is little doubt that the Canadian crusade, which took a number of forms, played a key part in making Americans in the northeast aware of their own interest in the issue. Then the domestic fight in the United States eventually provided the political weight that the international dispute alone had lacked and so brought about some— if not yet adequate— action in Washington. At the same time that it emphasizes the value of regional alliances reaching across the border, the acid rain case also shows a limitation of the devolution of power: the victims had no way of protecting themselves without the help of the federal governments.

There are other environmental matters in which a good bit of local autonomy can help to bring about effective action, as is shown by some of the arrangements about the Great Lakes and the working out of the difficulties over dams, flooding and power in the Skagit Valley where the main parties at interest were British Columbia and Seattle. Sometimes the local focus is only part of the story. The Garrison diversion controversy seemed to concern mainly irrigation and water supply in North Dakota and Manitoba, but it came to be seen as involving potentially dangerous transfers of plant and animal diseases and organisms from the watershed of the Missouri to the watershed of Hudson Bay. Crees paddled canoes down the Hudson to urge New Yorkers not to buy electricity from Hydro-Quebec on the grounds that the expansion of the James Bay project would flood more of the land from which they gained their livelihood. They also lobbied in Vermont and the mayor of Burlington ordered the municipal utility not to buy from Hydro-Quebec. A vice-president of that organization wrote to *The New York Times* rebutting the claims of the president of the American National Audubon Society that the James Bay development would damage the ecology of northern Quebec. When American newspapers conform to state or city requirements to use recycled paper (or do so voluntarily to stave off regulation) they create a problem for their Canadian suppliers who have to choose between losing a market or investing in equipment for recycling and de-inking.

Devolution affects much more than environmental issues. States, provinces, and cities can make life harder or easier for one another in a variety of ways by unilateral actions, and they sometimes overcome difficulties by cooperative measures that are quite irrelevant to other places. Just as two countries can sometimes reach agreements that go

beyond what the rest of the world is ready to accept, neighboring states and provinces in varying combinations might well work out rules or limits to moderate their competitive bidding for investments. Would they also have to find ways of sharing the gains? Or might they find themselves outbid by a government farther away that had accepted no limitations? Explorations of such possibilities raise further questions about where the line is to be drawn between national and regional interests— if it can be drawn at all. There is no doubt that the primary effects of the disputes between Maine and New Brunswick about potatoes are on those areas, but it is a nice question how much the national interests of Canada or the United States can be said to be involved. One would hardly doubt, however, that by conventional standards the collapse of the fisheries treaty of 1979 was a blow to the national interest of Canada although, in the nature of things, the focus was regional. But was it in the national interest of the United States to shield the New England fisheries from some of the Canadian competition? Comparable questions can be asked about disputes over lumber or mining.

General or particular manifestations of the devolution of power are bound to be resisted in both countries on a variety of grounds, particularly in Canada. As was pointed out earlier, control by the federal government was essential to the historic efforts to tie Canada together on an east-west basis, and continuing policies aimed at the coherence of Canada often involve using federal authority to favor some regions or transfer resources from some parts of the country to others. Foreign trade policy also works against devolution. Although exports and imports are bound to affect different areas and groups differently, measures that favor or hamper trade in different products usually have to apply to the whole country. The federal government also needs to be able to deliver on commitments to foreign governments. To maximize national bargaining power is probably a good enough reason to insist that Canada must "speak with one voice," but when Canadians put great emphasis on working out cooperative arrangements between provinces and the federal government to assure that result they often have other values in mind (or in their hearts) as well. Comparable considerations apply to other fields of economic or social policy, and often being next door to the United States adds weight to the case for strengthening central authority. It helps to remember from time to time that one of the factors influencing Canada's original constitutional arrangements in 1867 was the reaction against the Civil War that had just ended south of the border.

Nationalism, economic or otherwise, is not the only basis for giving power to the central government. Sound economics and practical management work against devolution in any number of matters. Money

cannot be both useful and only local. It is a public good provided by a government that has a wider area and more resources; whether even the national determination of monetary policy can any longer be adequate is the more relevant question. One might say the same of banking while noting that American federalism creates divided jurisdictions that Canada avoids. But in trade the American Supreme Court's interpretation of the commerce clause— stimulated in part by efforts at protectionism by states during the Depression— requires freer trade within the United States than exists among the Canadian provinces. It hardly needs to be added that although the case against devolution has extra strength in Canada, there is no great body of agreement among Americans that the distribution of power (or funds) between the federal government and the states (who sometimes act as regions) conforms to consistent standards or principles.

All this is elementary political economics. The questions are: what mix of centralization or devolution and what range of cross-border relations make most sense for Canada and the United States? The answers to those questions may well be different in the future with which we are concerned in this essay from what they would have been before June, 1990. The reaction of Canada as a whole and Quebec in particular to the failure of the Meech Lake agreement— and the reaction of each to the other's reaction— seem likely to add to the strength of the forces making for devolution. But then, again, they might not. To me the politics of Canada are mysterious and over the years I have observed how rarely people much better informed than I have predicted them correctly (no matter how easy it is to talk about them). Quite drastic consequences that "everyone" expects do not come to pass; conditions said to be impossible or unacceptable come to be. Taking happy refuge in the earlier commitment to avoid prophecy, this essay can do no more than register a few thoughts about possible developments that have a bearing on our major themes.

The potential for a further devolution of power away from the federal government is obvious. However, there will almost certainly also be a strong counterforce of nationalism in anglophone Canada— but how far will it go? In Quebec the simple appeal of separatism will have to contend with a sophisticated calculation of interests— of the society and of individuals— that will certainly favor more autonomy but will not write off the value of some special ties with the rest of Canada. This will probably be true even if the national sovereignty of Quebec is asserted. Separatism in other parts of Canada seems too remote to need serious consideration, particularly in the form of "joining the United States", an arrangement whose advocates are once more speaking up, as

they have before. Instead of ringing changes on these and other possibilities, it seems clearer to sum up the new situation by saying that, whatever the strength of the contradictory forces at work, the outcome can be measured in terms of the amount of home rule that develops in Quebec, and in how far the response of the rest of Canada increases the autonomy of other provinces or strengthens the central government.

The outcome will, naturally, affect Canada's relationship with the United States. An increase in power for the provinces seems almost bound to increase their incentives and opportunities for formal or informal cross-border arrangements. But there will surely be people, and not only in Ottawa, who will think it especially important to reassert the primacy of the federal government in international affairs. It would hardly be surprising if there was revived concern among Canadians about an old problem: American intervention. Indeed, the problems will begin before the new arrangements take shape.

Few people can doubt that it would have made little sense for the government of the United States to have formulated a view about the Meech Lake agreement and announced it, much less worked to promote it in Canada. Most people will probably advocate the same approach to the debates and maneuvering about the development of relations between Quebec and the rest of Canada. But is it possible? When the question of Quebec separatism was alive in the 1970s very few people questioned the wisdom of a studied public neutrality on the part of the U.S. government. But it was not precisely neutrality since most of the time (until Secretary of State Vance spoke not long before the referendum) it was accompanied by repetitions (or paraphrases) of President Carter's statement that his preference was for Canadian unity.[20] There were other elements in U.S. policy that seemed to be intended to hold the government of Premier Lévesque at arm's length; then and now some of them seemed to be unwise. There is little doubt, however, that most American opinion would have supported the view that because separation would in some way diminish Canada, the real interest of the United States was in the unity and stability of its northern neighbor, as traditionally defined. Certainly, support for "sovereignty-association" would have been seen as unsuitable intervention; but the endorsement of the status quo was also taking sides, if somehow not so obviously.

As the question arises again in the 1990s there are important differences in the situation. Meech Lake has to be seen as a failed effort to find a reasonable place for Quebec within the confederation. People know that the idea of "sovereignty-association" can mean any number of things short of total separation. The government of Quebec is in the hands of people who opposed the party favoring independence. Even if

they were put out of office, the alternative would not be so much of an unknown quantity as it was the first time. For example, there is much less worry— if any— in American business about nationalization or strongly socialistic policies. Quebec is economically stronger and has a business class which is bigger and more important than before and supports it own kind of nationalism. Another new fact is the FTA. Many Canadians believe that the assurance of free trade with the United States has done much to persuade moderate Québecois, particularly in the business community, that it would be less harmful than they previously thought to widen the distance between Quebec and the rest of Canada. Some anglophones have proposed that the United States should contribute to the unity of Canada by announcing that the FTA would not apply to Quebec if it were independent and new negotiations would be needed. I am not alone in thinking this would be an unwise course in terms of trade policy or policy toward Canada. The view is shared by Canadians of several persuasions including enemies of "sovereignty-association." Quite apart from the Quebec issues, intervention by invitation has its own problems, not least for those in Canada whose victories might seem to depend on American support. When the issue is as basic as the constitution of the country it is hard to see how any American action— or, for that matter, many kinds of inaction— could avoid offending Canadian sensitivities in ways that would harm the relationship— and with it, the United States.

Prudence will counsel restraint and even silence and Americans should be well aware that their taking sides will not settle basic intra-Canadian issues, at least in the long run. There is little doubt that the United States can adjust to whatever the outcome of even so large a question as the relation of Quebec to the rest of Canada (including separation). Nevertheless, American interests would be affected by major changes in Canada. Opinions will differ as to just how and how much. Without knowing how Canada will follow up the collapse of the Meech Lake accord, one cannot tell what it is that a passive American position would support. Few would deny that the United States would be properly concerned if change was brought about in ways that caused lasting discontent and continuing disputes inside Canada, not to mention threats to the peace. Faced with such possibilities many Americans might well favor a less "neutral" stance. And if the rights or safety of Americans were threatened, or the terms of agreements such as the FTA violated, tradition would be on the side of taking action, but by dealing with the Canadian government, not taking a hand in Canada's internal processes.

All these issues may be well settled by the time "our" period arrives, the long-run future. Americans who take the broad-gauged view of their national interest in Canada advocated earlier in this essay may debate whether Canada is stronger and better off in its new configuration— still using the term "Canada" to include Quebec, whatever the relation is— than it used to be. Canadians will almost certainly be divided between those who applaud the way the United States handled itself and those for whom that behavior was one more source of displeasure. But the question of American intervention will not have gone away.

"Intervention" suggests that some kind of line has been crossed from what is acceptable international behavior to something that is not acceptable. That line is none too clear, especially in Canadian-American relations; continued devolution and integration will blur it further. How Washington handles itself is only part of the issue. In the normal course of events a reasonable number of American individuals, companies, or public bodies, pursuing their self-interest, are quite likely to find themselves in a situation where it seems perfectly natural to try to influence what someone is doing in Canada. The risk that these efforts will appear to be unacceptable "intervention" is usually less when private interests and not government bodies are involved and lesser governments probably seem less offensive than those who have to invoke the "national interest." But business is not loved; issues matter and so does deportment. American firms that moved offices out of Montreal in the late 1970s might have been reacting to the inconvenience of working in French (or just following their anglophone Canadian friends) but American bankers who would not lend to Saskatchewan when the potash companies were socialized had to expect to be accused of playing politics. Sticking to traditional channels may not be much of a safeguard. Canadian nationalists frequently regard almost any American representations in Ottawa as intervention because there is a domestic Canadian argument going on about the same issue and the United States is thus seen as taking sides. The result that I have noticed more than once is that the United States is then blamed for overriding what was in fact a minority view in Canada anyhow.

Much of this trouble is inescapable. If the argument of this essay is correct, there will be an increase in what can be called "intervention" simply because the two countries will become much more "mixed up together" as Winston Churchill hoped the United States and Britain would become. Will negative reactions to intervention also grow? Probably. As in so many other things the discrepancy in size between the two economies will be one cause. Opposite and equal reactions do not

necessarily produce balanced reciprocity. The idea of having people who represent Canadian business as a whole in Washington probably makes a good bit of sense but how would a comparable representation of all American business in Ottawa be received by most Canadians? The different relation of the executive and the legislature in the two countries also plays a part in these matters and so do the strengths and weaknesses of state and provincial legislatures.

One of the first messages that Alan Gotlieb carried to both the American and Canadian publics when he became Canadian Ambassador in Washington was that the best way for Canadians to influence American policy was to insert themselves in the American political process. That seemed a reasonable response not only to the problems of the time but to the kinds of issues foreshadowed by this essay. There were warnings from those who favored the well-established "Quiet Diplomacy" of the past; the new Public Diplomacy has not always been successful; it is not well-suited to every case. But a good bit of Canadian involvement in the American political process is accepted as natural or sometimes not even noticed. It will be interesting to observe what kinds of Canadian intervention generate the most resentment over time. It is hardly surprising if the Environmental Defense Fund objects to Canadian lobbying of the Environmental Protection Agency on rules concerning asbestos, and landlords are not loved more because they live in Toronto and not New York. Some places and issues will turn out to be more sensitive than others, but in the nature of the relationship there can hardly be, on the American side, the feeling of some Canadians that they are permanently and massively intervened just by the fact that so many decisions concerning their economy are made in board rooms in New York, Texas and Detroit.

Once again there is a dilemma created by the relationship itself. People in each country are bound to want to influence what goes on in the other and this ought to be widely accepted. But to what point can the prescription be carried, particularly if it is taken as working both ways? The dilemma cannot be satisfactorily resolved by accepting one clear course or another. The best one can hope for is to find ways of mitigating the situation.

How can that be done? The end of an essay is no place to start laying down a program, but a few suggestions will point some directions. A major aim should be to improve clarity so that more Americans and Canadians understand the nature of the bilateral relationship. (An author may be forgiven for thinking that means explaining it as he has been doing). The easy part is to remind people that neither country can

ignore the other and that economic, social, and political events in one country have an effect— and often a very important one— on people in the other. The direct interests of people on one side of the border who own something on the other side, or do business there, need to be traced more clearly than is often done. It is equally important to show why the processes of "normal" international relations are inadequate to deal with the closeness and intricacy of many strands of the relationship.

Then comes the hard part, to cultivate an understanding about what kind of behavior is suitable in so special a relationship. It is plainly not enough for presidents, prime ministers, ambassadors and cabinet members to give enlightening speeches. They have a teaching function that goes with their national responsibility, but there are other political leaders with narrower constituencies. And then there is the general public which is of crucial importance because of what John Dickey called "the uniquely pervasive private character of the relationship."[21]

To help people understand their place in the relationship there should be a great emphasis on transparency— the making clear of what is really going on. This idea has been in good odor in trade policy for a long time, especially once the traditional focus on simple measures of border control such as tariffs gave way to the need to deal with a wide range of governmental and private practices— often not written down in laws— that affect the flow of trade. Transparency is also crucial to the conduct of political life in democracies. What is involved in our present case is not simply making clear what federal, provincial and state governments are doing but what are the realities of economic relations: who owns what? Who will lose if someone else gains and when will the gains that one group makes benefit another as well? How will new investments, shutdowns, higher wages or better fringe benefits help or hurt workers, consumers, employers and communities in the long run? It will not always be possible to give firm answers to such questions but the acceptance of the idea that there is a need to increase transparency would help to clarify the bilateral relationship as well.

Transparency in information will help people work out their own real interests and discover who their allies and adversaries are on both sides of the border. Ways should also be found by which interests can be expressed without always having to be put through the mill of national processing to get on the diplomatic agenda and be declared a national interest. The encouragement of the processes of presenting one's case directly to the authorities in the other country seems obvious. So does encouraging private interests, or state and provincial governments, to use the disputes settlement procedures of the FTA and giving

them broad rights and status in all such arrangments or before other international tribunals. Interparliamentary exchanges that are less limited and formal than those of the past might help. When there are issues that might be dealt with by state and provincial governments dealing directly with one another that process might be encouraged but also subjected to the principles of transparency, openness to the representation of interests and perhaps some kind of oversight by federal governments to insure that arrangements that satisfy local groups do not do damage to other parts of the country or to true national interests.

Such measures, combined with devolution and pluralism, would make for clarification by action, another kind of transparency. Cross-border alliances to contest issues in one's own country, the other, or both, would increase— but not always succeed. Finding out what worked would be educational. Familiar domestic processes would operate differently from before and traditional combinations and balances of power would be upset. Friction would feed prejudices but some old biases might be overcome. Failures would sometimes discredit new methods and successes would make other people unhappy.

There would be resistance to moving in this direction, some of it based on intellectual objections. Canadians, outnumbered, would fear that their politics would be swamped by American activists, and perhaps their ways of life, too. Some would say that American beliefs in relying on the market would upset Canadian arrangements based on government guidance and continuing involvement. But the familiar proposition that sees Americans always distrusting government, whereas Canadians trust it, is seriously exaggerated. Historically, both peoples have been very pragmatic. Even the loud rhetoric of recent decades has passed silently over the unquestioned assumption that certain activities would continue to be regulated, and experiences such as those with S&L lending have shown that sound economic policy is rarely a matter of absolutes. In Canada opinions are divided on most governmental policies and not just along party lines; the extent of subsidization is frequently questioned, as to effects as well as costs. To be sure, government-owned and directed enterprises and activities are more important in Canada, and that will affect both the process and calculations of interest. What cross-border alliances will result from common views and what activities will run afoul of disagreements on such matters is not immediately obvious, but to find out which emerge in practice as people look at concrete issues will be enlightening. False equations of Canadian and American attitudes would also come to light. When Ronald Reagan became president, Canadian businessmen and academics urged their American friends to explain to politicians and officials that Canadian

conservatism and American conservatism were apt to be quite different and so were many of the views of "business."

Another source of Canadian resistance to increased devolution and pluralism would be fear that letting the two countries become too mixed up with one another would reduce Canada's freedom of action and threaten its identity. That some Canadians should have such fears is fully understandable given the propensity of so many of their compatriots to import American popular culture, and not always its best features. But as a friendly observer who has been watching for a long time, I do not believe that the danger is mortal. The core is too tough and the attraction of being Canadian and having a distinct society too great. There are protections with which Canadians are familiar. It is not even clear that devolution and interpenetration will greatly increase the exposure to Americans. And if the Americans behave nationalistically, as many of them usually do, even unconsciously, it may well turn out as Lester Pearson said that the "American influence on Canada, far from really Americanizing the Dominion [as it then was], is one of the strongest forces making for a Canadian national consciousness."[22] No doubt Canadian national consciousness is something different in the 1990s than it was when Pearson wrote in the 193[illegible]nd it may well be somewhat different again in the undated future of which we are speaking. In all countries the internationalization of life has an effect on the meaning of nationality. There is no reason, however, to think that there will be any weakening of the "attachment" to Canada, as Gordon Robertson calls it. "For most Canadians the attachment is emotional. It is an attachment to an undefined 'Canada' meaning different things to different people, and one that often conceals profound differences that any analysis quickly would reveal. Yet for all the underlying differences, the emotion is real and constitutes a powerful force that conditions the attitudes of all."[23]

As for independence, some loss of the power to act separately from other countries is a concomitant of contemporary life. Sometimes it can be staved off or slowed down when that seems worth the cost and effort. In the future we are discussing, as is the case now, when there are trade-offs, as there are, it would be for Canadians to make them. They would set the pace and the pattern of change. There would also be gains in strength and independence. Individual provinces might be freer to choose courses they thought advantageous than when they had to wait for the rest of the country to agree with them. In both Canada and the United States, the experience— or at least the belief— of people in states, provinces, and regions is that they have often done better economically when they took the initiative in their own affairs than when they had to rely on the federal government. Comparable autonomy for some of the

laender in Germany is assigned a significant part in a careful study of that country's adaptation to changing world economic conditions.[24] The kind of integration being discussed here cannot be forced on people, it must be chosen or accepted for good reasons. American positions would be less monolithic than when set by Washington and would become more clearly the views of some Americans, rejected or opposed by others. For a variety of reasons more pluralism in the relationship might well increase the influence of Canadians in American life, not because they are Canadians but because good cases that were well argued and skillfully handled would often gain from having higher priorities for Canadians than for Americans.

Simply letting the forces of devolution and cross-border activity develop as they are likely to in a setting of growing intimacy and complexity will certainly increase the messiness of public life in North America and the relations between the two countries. But to insist on more traditional methods is to force the reality into an oversimplified framework. There would be other disadvantages from the diffusion of power: a great deal of waste motion and some confusion; disputes as to who was entitled to do what and other struggles for power would be common; probably more people would be able to block decisions on environmental and other grounds; new layers of bureaucracy might come into being. But there would be advantages as well: flexibility; possibly less tension in dealing with some issues without having to invoke "national interest" and bring the highest political levels into play; increased sensitivity and communication that would provide more of the early warning of emerging problems that has been the objective of innumerable proposals for improving relations.

Even a considerable move towards devolution and interpenetration would not fully displace older methods and established channels. The two federal governments would still have to deal with one another over a wide range of issues and pull together partial interests into proposals that they felt added up to the national interest. Common policies or new methods of handling common interests would still be one of their objectives but there would continue to be many disagreements. In between might come a new emphasis on what William T. R. Fox called "coordination by parallel action."[25] Although Fox was dealing mainly with security issues, his comments seem to me to suggest that a broader use of this approach would be desirable. He shows why Canadians like this method and how well it lends itself to the complex interconnections of the political processes of both countries. As applied to the kinds of issues with which this essay is concerned, parallel action would mean that the two countries recognized a common interest in a problem and

each tried to deal with it as well as possible by separate national actions or policies that minimized difficulties between them.

Parallel action would not always yield parallel results, and its looser arrangements lack some of the advantages of common policies or international agreements. Still, some version of this approach seems made to order for a wide range of economic and social problems in which there are differences in the laws, federal arrangements, customs, and trade-offs acceptable to governments and publics. Parallel action permits each country to take account of its particular problems and political needs more flexibly than methods that require complete uniformity; the obvious disadvantages and limits to the approach come from the same fact. Acceptable parallels will not be found for everything. The extent to which the method can be used in the distant future with which we are concerned depends less on its strong and weak features than on the changes that take place in the two countries. But it also depends partly on the ways in which they are not likely to change. As Fox pointed out, one of the reasons "parallel action" has worked well in some matters is that "[b]ecause Canada and the United States are not political monoliths ... there is a tug and pull of sub- and trans-national interest groups and a high capacity for trans-national consensus and informal integration."[26] That certainly has the ring of reality to anyone who has been looking at the bilateral relationship, past, present and future.

Parallel action, devolution, interpenetration, concentration, diversification— they do not add up to a prescription for amalgamation, though superficially it may look that way. However rough my sketch has been, it allows explicitly for strong national governments in both countries that are quite capable of pursuing whatever courses of action they judge to be in the national interest— and that lie within their power. Many of the complications of the future stem from the fact that more or less traditional intergovernmental relations go on at the same time that the relations between the two economies and societies become more intricate and more intimate. Partly because of the difficulties that would arise from these complications, or the unacceptability of some of the directions in which events seemed to be moving, and partly for reasons going beyond the scope of this essay, another kind of future has to be considered. That is one in which the two central governments become more, not less, important, at least in defining and carrying out the bilateral relationship. In that situation one would have to reckon with an increase in nationalism on both sides and probably more unilateralism by the United States. The picture would be closer to the familiar present than the kind of future this essay has suggested is likely to develop. In terms of our title, there would be more continuity than change.

We have ruled out prophecy but two analytical points have a bearing on how one might assess these alternative futures. A sharpening of nationalism or even just a continuation of the familiar present behavior of central governments can be brought about by only one of the countries. To move toward the kinds of relations explored earlier takes two. That seems to put a thumb on the scales of probability, but there is an offset. To treat the relationship of Canada and the United States as if it were mostly like the relationship of most other pairs of countries is to ignore reality and go against the most likely movement of events. How much weight to attach to the difference may be suggested by a recapitulation of the main themes of this essay.

A TRIAL BALANCE OF CONTINUITY AND CHANGE

In its effort to look into the distant future, this essay had to skip rather awkwardly over the short-run future while recognizing that it will do much to shape what follows. Although one cannot be sure how much of a watershed the FTA will prove to be, its completion or its collapse will make a big difference. The list of other issues on the economic agenda of Canada and the United States that will be influenced but not settled by how the FTA fares is long. Mostly familiar, it includes some new items and may provide new settings for some of the old ones.

Somewhat more useful results came from the effort to see if one could judge which major conditions shaping the Canada-United States relationship might change in the future and which would be more or less the same as always. Plainly, the geography will not change nor will the great difference in the size of the two economies, and these are major shaping factors. The openness of the two societies, the responsibility of Washington and Ottawa for the conduct of their national economies, and the orientation towards nationalism inherent in their situations can also be assumed to be elements of continuity. Where some change is to be expected is in the international economy and consequently the pressures it exerts on the two countries. The American economy is becoming more internationalized; Canada's trade and investment patterns may become more diversified than before; both have a basic need to be globally competitive. For these reasons, but for others as well (including the FTA), there will be changes in the structure of the two national economies and some of the relations between them.

Where it proved impossible to strike a balance between continuity and change was in the extent to which Canadian nationalism would be more or less focused on separate national activity instead of more international cooperation or cooperation with the United States, the degree to which the United States would become more highly

conscious of the importance of its relations with Canada, and whether it would approach them in a broad-gauged manner or try to use its superior power to extract concessions from Canada. Cutting across several of these questions is another concerning the extent to which the two countries, partly because of the FTA, would try to work more closely together in dealing with the rest of the world, and what kind of international trading system they would try to create or preserve.

Among the dynamic factors that would help shape the answers to these questions as well as make for changes in the economy, the essay gave most attention to the international elements, North American business and labor, and the combination of the devolution of power within both countries, their pluralism, and the possibilities of greater cross-border activity other than in relations between the two federal governments.

Among the most intriguing points that the essay suggested had to be taken seriously was that most of the processes considered, whether they were dominated by continuity or change, seemed likely to contribute to the continuing integration of the two economies. From there it was a natural step to ask whether it would not be a realistic response to the density and complexity of the relationship to look for ways of reducing the traditional approaches that required differences to be treated as "national interests" and instead to let partial interests in both countries, working across the borders when that was suitable, do more to shape the relationship. Some inquiry as to what this might mean made it apparent that there would be both intellectual reasons and political pressures resisting it.

Perhaps there is nothing new in the observation that in such a relationship between two democracies there will always be contradictory forces at work and there will be more messiness than order in the conduct of affairs. But space did not permit us to go into the implications of this fact for the basics of policy. Many other sections of the essay opened possibilities that could not be pursued. It was clear enough that one dominant note in all these matters must be uncertainty. (Did we need so many pages to discover that?) But it is uncertainty in a situation where the long-run trends of certain factors are reasonably predictable; some will change and others not. It follows that a key to the effectiveness of the economic policies of the two countries has to be their ability to deal with uncertainty and any number of unpredictable developments, including the inability to be sure how the other country— or even sometimes one's own— will react to certain measures or events.

It follows further that flexibility must be high on the list of criteria for policy, and in several senses. To be internationally competi-

tive the economies must be flexible as there will continue to be changes in the world economy, in technology and in North American economic conditions as well. The governments should be flexible in their approaches to the way issues are handled if they are to reap the advantages of realism in dealing with the combination of integration and nationalism, centralized and diffused power that are inherent in the situation of the two countries as far ahead as one can see (and perhaps farther).

Franklin D. Roosevelt used to complain when the findings presented to him were too "iffy." He could certainly lay that charge against this essay. Almost the only point that is beyond challenge is the claim that continuity in the relationship of Canada and the United States has involved continuous change and that there is no reason to think that this will not be true in the future, different as that time will be from ours or the past. Roosevelt's common practice of entrusting the same task to several people may be the remedy for this essay's "iffiness," uncertainty, and lack of clarity, as other scholars and observers will surely pursue some of the same questions and take issue with what has been said here. Perhaps they will do better than I in imagining the distant future without stumbling over the period just ahead of us. Some of them will correct whatever American bias I have not been able to overcome. A divergence of views may not only offset some of these disadvantages but extract whatever value this essay has in suggesting how profound a truth about the Canadian-American relationship there is in John Dickey's paradoxical description of it as "...an interplay where there is room for almost anything to be both true and untrue..."[27]

1. For instance, Peter Morici, ed., *Making Free Trade Work: The Canada-U.S. Agreement* (New York: Council on Foreign Relations Press, 1990); Jeffrey J. Schott and Murray G. Smith, eds., *The Canada-United States Free Trade Agreement: The Global Impact* (Washington: Institute for International Economics/Canada: The Institute for Research on Public Policy, 1988); "Summary of Proceedings of the Seminar on Dispute Resolution Under the Canada-United States Free Trade Agreement", *Stanford Journal of International Law* 26, No. 1 (1990): 153-204.

2. The laws rarely establish fair competition, often produce lasting restrictions on trade, are vulnerable to protectionist abuse and add uncertainty to trade and investment. They invite conflicts with other countries by applying unilaterally American criteria and procedures that are different from those of other countries (for instance with regard to the part of governments in economic affairs). It is politically difficult to reduce these troublesome features in any circumstances, but an international agreement on principles and practices offers some opportunities.

3. The study took about eight years and produced thirteen volumes published by the University of Toronto Press between 1968 and 1972. The program's research director was H. Edward English and it was also guided by Roy A. Matthews, the head of the Association. Both of them were among the 23 authors of the published volumes.

4. "Commissioners see negotiations with the United States ... as a prudent course which will help to make us richer ... Ultimately, it should strengthen and diversify our economy, achieving for us goals that we have long sought, but which have eluded us, largely because our domestic manufacturing sector has been too weak to attain them.

Negotiations leading to freer trade, whether pursued bilaterally or multilaterally, will be of little use if they are not supported by the right domestic policies. *Report of the Royal Commission on the Economic Union and Development Prospects for Canada* (1985) Vol. I, 380.

5. Guy Stanley, "Interim Report: Canada and the Free Trade Agreement", *Canadian Horizons*, 4, No. 1 (November 1989), published by Prudential-Bache Securities.

6. If good examples were sufficient to shape subsequent behavior, the course of Western European integration would have been more predictable and less uneven than it was. An alternative hypothesis that also proved incorrect was that each step in partial integration would create problems that would lead to further integration. Each of these factors played a part, but the movement from the Coal and Steel Community of 1950 through the Common Market to the measures planned for 1992 was far more complex and irregular than these formulas suggest.

7. William Diebold, "Canada and the United States: twenty-five years of economic relations," *International Journal* 39, no. 2 (Spring 1984): 389-409.
8. Irving Brecher and S. S. Reisman, *Canada-United States Economic Relations* (Ottawa: Queen's Printer for Royal Commission on Canada's Economic Prospects, 1957).
9. Archives of the Council on Foreign Relations, Inc., New York, *Records of Groups*, Vol. 4, 1931/32-1932/33; Council on Foreign Relations Study Group, Canadian-American Relations, typescript of digest of discussion, first meeting, November 19th, 1931. It is not entirely clear if the report if verbatim but it is so treated here. Later quotations from Mr. Pearson in this article are from the same source, except for one from an anonymous article in *Foreign Affairs* a few months later. As it makes many of the same points and uses some of the same turns of phrase, I believe it is by Pearson. R., "Neighbors: A Canadian View', *Foreign Affairs*, 10, No. 3 (April 1932): 417-30.
10. John Sloan Dickey, *Canada and the American Presence: The United States Interest in an Independent Canada* (New York; New York University Press for the Council on Foreign Relations, 1975), x.
11. Joseph S. Nye, "Transnational Relations and Interstate Conflicts: An Empirical Analysis," in Annette B. Fox, Alfred O. Hero, Jr., and Joseph S. Nye, Jr., *Canada and the United States: Transnational and Transgovernmental Relations* (New York: Columbia University Press, 1976), 367-404.
12. Dickey, *Canada and the American Presence*, 129.
13. John W. Holmes, *Life with Uncle: The Canadian-American Relationship* (Toronto: University of Toronto Press, 1981), 131.
14. A fairly detailed analysis of the deterioration in trade policy can be found in Miriam Camps and William Diebold Jr., *The New Multilateralism: Can the World Trading System be Saved?* (New York: Council on Foreign Relations, 1986, originally published in 1983). Briefer discussions of broader aspects of the Bretton Woods system and its deterioration can be found in my lecture and my article: *Canadian-American relations in a changing world economy* (Toronto: Center for International Studies, University of Toronto, 1979) and "The United States in the World Economy: A Fifty Year Perspective," *Foreign Affairs* 62 no. 1, (Fall 1983), 81-104.
15. The pros and cons of these courses and some exploration of what they might mean can be found in Camps and Diebold, *The New Multilateralism*, 65-72; William Diebold Jr., ed. *Bilateralism, Multilateralism and Canada in U. S. Trade Policy* (Cambridge, Massachusetts: Ballinger; The Council on Foreign Relations Series on International Trade, 1988), chapters 1 and 6; C. Michael Aho and Sylvia Ostry, "Regional Trading Blocs: Pragmatic or Problematic Policy," in William E. Brock and Robert D. Hormats, eds.,

The Global Economy: Americans Role in the Decade Ahead, (New York: W. W. Norton for The American Assembly, 1990); C. Michael Aho, "More Bilateral Trade Agreements Would be a Blunder: What the New President Should Do", *Cornell International Law Journal* 22, no. 1 (Winter 1989): 25-38.

16. Among many works treating competitiveness, three by Peter Morici are particularly helpful for the purposes of this essay: *The Global Competitive Struggle: Challenges to the United States and Canada* (Toronto and Washington: Canadian-American Committee, 1984); *Meeting the Competitive Challenge: Canada and the United States in the Global Economy* (Toronto and Washington: Canadian American Committee, 1988); *Reassessing American Competitiveness* (Washington, D.C.: National Planning Association, 1988).

17. Although Americans tend not to use the word "subsidy," that is the correct description of the variety of "incentives," some of which are mentioned later, offered to companies by states and cities.

18. Miriam Camps, *The Management of Interdependence: A Preliminary View* (New York: Council on Foreign Relations, 1974), 99, 13. In the sentences that follow the quotations, I am drawing on some of Mrs. Camps's ideas rather than paraphrasing what she says on this specific issue.

19. Maxwell Cohen, "Canada and the US - new approaches to undeadly quarrels," *International Perspectives* (March/April 1985): 16-22; Senate of Canada. Proceedings of the Standing Senate Committee on Banking, Trade and Commerce, February 19, 1987, 12:34-12:55 - Judge Cohen's testimony. If I have read a little more into these statements than others might, it is because I have had the benefit of some conversations with Judge Cohen on these matters. Anthony Westell, "Economic Integration with the USA", *International Perspectives*, (November/December 1984): 2-27.

20. The whole story is traced in detail in Jean-François Lisée, *Dans l'Oeil de l'Aigle: Washington face au Québec* ([Montreal]: Boréal, 1990) which also has material on many other aspects of U. S. relations with Quebec.

21. Dickey, *Canada and the American Presence*, x.

22. R., "Neighbors: A Canadian View", *Foreign Affairs*, 10, no. 3 (April 1932: 421. See note 9 for the reason for believing that "R." was Pearson.

23. Gordon Robertson, "The United States and Problems of Canadian Federalism," in Charles F. Doran and John H. Sigler, *Canada and the United States: Enduring Friendship, Persistent Stress* (Englewood Cliffs, N.J.: Prentice-Hall for The American Assembly and the Council on Foreign Relations, Inc., 1985): 25.

24. Peter J. Katzenstein, ed., *Industry and Politics in West Germany* (Ithaca: Cornell University Press, 1987), 10.
25. William T. R. Fox, *A Continent Apart: The United States and Canada in World Politics* (Toronto: University of Toronto Press, 1985), 147 and 110-111.
26. Ibid., 111.
27. Dickey, *Canada and the American Presence, vii.*

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